

January 27, 2022

The Chairman  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 5<sup>th</sup> Avenue  
6<sup>th</sup> Floor  
New York 10017  
United States of America

Via Online Submission

Dear Mr. Tom Seidenstein

**COMMENTS ON IAASB EXPOSURE DRAFT '*PROPOSED INTERNATIONAL STANDARD ON AUDITING FOR AUDITS OF FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES (ISA FOR LCE)*'**

The Malaysian Institute of Certified Public Accountants ("MICPA") appreciates the opportunity to comment on the IAASB Exposure Draft '*Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)*' ("Exposure Draft").

Based on the various outreach organised in Malaysia, the views received from the members were mixed. Whilst there were members who were supportive of this as a standalone standard, there were equally other members who did not see a compelling reason for the need for such a standalone standard as articulated below.

One of the impetuses of this proposed ISA for LCE is the apparent lack of scalability of the extant International Standards on Auditing ("ISAs"). However, as demonstrated by many firms which had already developed the methodology and work programmes for small and less complex entities audit using the extant ISAs, there is good evidence that the ISAs are scalable.

In addition, the brevity achieved by this proposed ISA for LCE is more due to elimination of the irrelevant portions of the extant ISAs for less complex audits rather than any significant simplifications. In fact, all the key steps, including the application of ISA 315 (Revised 2019) and need to comply with ISQMs, have been retained. From a quality standpoint, the assertion of reasonable assurance in this proposed ISA for LCE has no difference as compared to the extant ISAs. Hence, there may be very little cost savings or reduction in efforts to perform audits of LCE under this proposed standalone standard. However, there is a grave concern that the market perception is that this proposed ISA for LCE is a simplified approach requiring less efforts and costs, which would further aggravate the fee pressures in view of the perceived "lower quality" audits supposedly performed under this proposed ISA for LCE.

Whilst it is acknowledged that some of the brevity in this proposed ISA for LCE did come from the simplification of the terminology and the way the existing ISAs are currently written, there is recognition that the IAASB will be carrying out its CUSP project to similarly simplify the extant ISAs. Consequently, there have been questions raised whether this proposed ISA for LCE is in a way a "stop gap measure" and its relevance may be of a limited time frame.

In view that there would be many SMPs who would focus and specialise in audits of LCEs, the introduction of such a standalone standard may result in 2 tiers of auditors which cannot be good for the development of the profession in the longer term.

In this regard, we therefore do not support this as a standalone standard but rather it be issued as an approved guidance so as not to lose the positives of this effort.

In the event that the IAASB goes ahead to issue the LCE as a standard, strict parameters should be implemented as to which entities are applicable to use the proposed ISA for LCE so as to minimise disputes between audit firms, regulators, clients and even potential litigants.

We would also recommend that the IAASB assists practitioners clearly and better articulate the benefits of using this standalone standard to third party stakeholders (i.e. users, preparers, regulators) and on how it will enhance the quality of audits performed. Additionally, engagements with these third-party stakeholders should be carried out in advance on the implementation of this standard to address any misconceptions

We are also pleased to attach MICPA's further comments as set out in Appendix for your consideration.

We trust our feedback to be of value to the IAASB, in your onward deliberation. MICPA looks forward to further strengthening such dialogues with your organisation.

Please do not hesitate to contact the undersigned or the Technical Director, Ms Chiam Pei Pei, at +603-2698 9622 should you require any clarification.

Thank you.

Yours faithfully



NOVIE TAJUDDIN  
Chief Executive Officer

Our responses to the specific questions are as follows:

**Section 4A – Overarching Positioning of ED-ISA for LCE**

**Question 1**

**Views are sought on:<sup>1</sup>**

- (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?**

**Comment:**

As articulated in our cover letter highlighting several areas of concern, we do not support this as a separate standalone standard, but rather it be issued as an approved guidance so as not to lose the positives of this effort.

- (b) The title of the proposed standard.**

**Comment:**

If it is issued as a standard, we agree with the title.

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

**Comment:**

We have highlighted several areas of concern which we believe needs to be addressed by the IAASB and to develop a more compelling case amongst practitioners and third-party stakeholders on why this ISA should be adopted as a standalone standard.

This standalone standard has incorporated the principles and concepts that are already in the extant ISAs which suggests that technically auditors need to be knowledgeable and familiar with the extant ISAs to fully appreciate the applicability, use and application of this proposed standalone ISA. It will be interesting to see whether future staff who will be trained only in this standard and not the extant ISAs will be able to carry out an effective audit and deal with new developments that may be encountered in the course of the audit.

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<sup>1</sup> There is an overarching question at the end of Section 4F (question 17) to share their views about whether, overall, ED-ISA for LCE meet the needs of users and other stakeholders, and whether the proposed standard can, and will, be used. It is best to answer that question after having considered all relevant matters explained in this memorandum and the content of the proposed standard.

**Question 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?**

**Comment:**

If it is issued as a standard, we agree with the conforming amendments.

**Section 4B – Authority of the Standard**

**Question 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?**

**Comment:**

The Authority is implementable in Malaysia.

**Question 3 (continued)****(b) Are there unintended consequences that could arise that the IAASB has not yet considered?****Comment:**

There could be unintended consequences that could arise in the implementation of this proposed ISA for LCE, based on the proposed authority of the standard:

1. Given that there is no "flexibility" allowed in this proposed ISA, there are likely to be instances where new information that warrants the use of the extant ISAs appears in the midst of the execution of audit. In these circumstances, the change of standard from this proposed ISA for LCE to the extant ISAs will be required which will inadvertently result in an increase in the cost of compliance.
2. There are concerns on the authority given to an engagement partner as circumstances may arise when the use of this proposed ISA for LCE is challenged by the jurisdiction/regulators/authorities. As the responsibility principally lies with the engagement partner to decide as to whether this proposed ISA for LCE can be used for an engagement, inevitably practitioners would choose the "safety" of the extant ISAs whenever there may be such uncertainty of this choice.

Consequently, the definition of "Less Complex Entities" needs to be extremely comprehensive and robust to limit such uncertainties. Otherwise as explained, practitioners would rather continue to adopt the extant ISAs instead of taking the risk of reversing the whole LCE procedures to full-ISA procedures where one single complex item is identified at the middle of the audit process. Additionally, the IAASB may want to consider still allowing the use of this proposed ISA even if one new item of complexity is identified under certain prescribed conditions.

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

We suggest the IAASB to provide greater clarity on the definition of complexity, such as providing guiding principles to decide the complexity of an audit for both jurisdiction and firm determination. Though the Supplementary Guidance for the Authority of the Standard (Page 14) has provided some examples of jurisdiction determination, we suggest a list of guiding principles to be provided properly.

**Question 3 (continued)**

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

**Comment:**

In the event that this proposed ISA for LCE is issued as a separate standalone standard, we recommend that the IAASB clearly and better articulate the benefits of using this standalone standard to third party stakeholders (i.e. users, preparers, regulators) and on how it will enhance the quality of audits performed as the rationale for developing this standalone standards are very practitioner centric. Additionally, engagements with these third-party stakeholders should be carried out in advance on the implementation of this standard to address any misconceptions about audits performed using this standalone standard are of "lower quality" and requiring less efforts and cost.

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

**Comment:**

The proposed roles of the various authorities are clear though implementation guidance for the authorities will be useful.

We suggest the IAASB to allow sufficient time for the respective jurisdiction to deliberate and determine whether any additional prohibitions may be required.

**Question 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.**

**Comment:**

As indicated, the definition of "Less Complex Entities" needs to be extremely comprehensive and robust to limit uncertainties whether this standalone ISA can be used. We therefore suggest the IAASB to provide illustrative examples pertaining to the application of this proposed ISA for LCE in determining whether an entity would qualify as an LCE. For example, a situation where a company may have simple structure and simple operations, but has fairly complex IT systems to monitor its operations or uses the services of shared service centre, would such an entity be considered as an LCE.

Perhaps, the IAASB can provide us some real-life examples and the guiding principles the IAASB would apply to decide whether the entity is a LCE would be useful as practical application of this standalone standard.

**Question 5**

**Regarding the Authority Supplemental Guide:**

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

**Comment:**

Yes, the guide is helpful in understanding the Authority.

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

**Comment:**

No other matters identified.

**Question 6**

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

**Comment:**

As indicated in our response to Question 3(c), a list of guiding principles would be useful.



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

**Question 7**

**Views are sought on the key principles used in developing ED-ISA for LCE as set out in this Section 4C.<sup>2</sup> 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).**

**Comment:**

Whilst the main principles and requirements of the extant ISAs have been retained, the approach is essentially a compilation of the relevant portions of the existing ISAs with simplification of terminology and presentation.

However, it is not obvious in the proposed standard, the areas an auditor would be allowed to do different procedures (for example reduced sample sizes) while still be able to opine under a reasonable assurance framework. More focus and clarity in this matter would drive greater efficiencies and reduced efforts to perform such audits

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

**Comment:**

The objectives are appropriate. However, more practical examples and guidance to provide application of the objectives would be useful to the practitioners.

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

**Comment:**

The principles are appropriate. Again, more practical examples and guidance to provide application of the principles would be useful to the practitioners.

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<sup>2</sup> Section 4E below addresses the content of ED-ISA for LCE, including specific questions for respondents to provide their detailed comments on the content of the proposed standard.

**Question 7 (continued)**

**(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.**

**Comment:**

As indicated, more practical examples and guidance to provide application of the approach would always be useful and helpful to the practitioners.

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

**Question 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).**

**Comment:**

The overall design and structure are good and helpful to navigate through the various sections.

**Section 4E – Content of ED-ISA for LCE**

**Question 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.**

**Comment:**

We are of the view that risk assessment in an audit of an LCE is a key area where the standard can be more scalable than the extant ISAs. Further consideration on how the requirements can be modified as the current requirements are too aligned with the extant ISAs.

In addition, consideration to incorporate the “stand back” provision in the extant ISAs should be made as this may be equally effective in audits of LCE.

**Question 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.**

**Comment:**

Please see our response to Question 10(c).

**(b) The approach to include a specified format and content of an unmodified auditor's report as a requirement?**

**Comment:**

We are supportive of this approach.

**(c) The approach to providing example auditor's reports in the Reporting Supplemental Guide.**

**Comment:**

In addition to a "standard" unmodified opinion report, examples should also be given for a qualified opinion, a disclaimer and material uncertainty over going concern.

Guiding principles on how this standard can still be applied under such circumstances will be useful.

**Question 11**

**With regard to the Reporting Supplemental Guide:**

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

**Comment:**

We are of the view the support material is helpful.

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

**Comment:**

We have no other matters to highlight.

**Question 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.**

**Comment:**

Please see our responses to Questions 9 and 10.

**Section 4F – Other Matters**

**Question 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?**

**Comment:**

Please see our responses in Question 3(a), (b) and (c).

Continuing digitalisation and automation, decentralisation and outsourcing including the use of shared service centres will be the way forward for businesses. It is unclear how these trends will impact the categorisation of entities as an LCE under this standard and more guidance should be provided to prevent inconsistent treatment and approach in practice.

The very rigid approach that discovery of any new complexities during the audit process which will then disqualify the use of this standard poses significant legal risk to the practitioners. It is unclear what may happen if clients refuses to re-sign the engagement letters using instead the extant ISAs framework and whether there may be an element of negligence particularly when the "top up" audit procedures subsequently required result in delays in completion of the audit and deadlines are missed.

More guidance should be provided in the event practitioners are required to switch the audit from using this standard to the extant ISAs and the accompanying issues that will need to be addressed. Perhaps the expectation that switching of auditing framework during the audit is expected to be rare should be clearly indicated in the standard and the procedures that will be required to ensure this.

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

**Comment:**

Please see our responses above.

**Question 14**

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

**Comment:**

We are of the view that all changes to the extant ISAs should be similarly considered for this standalone ISA and updated at the same time if required. This is to ensure that this standalone standard is aligned with the extant ISAs which will allow for easier transitioning of the LCE audits to the extant ISAs framework.

**Question 15**

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

**Comment:**

We have no objection if the early adoption is allowed.

**Question 16**

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

**Comment:**

In the event that the IAASB goes ahead to issue it as a standard, we suggest to keep the ED-ISA for LCE for general purpose framework only. Hence, we suggest to exclude the ISA-800 from ED-ISA for LCE.

**Question 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.**

**Comment:**

We suggest this proposed ISA for LCE to be issued as an approved guidance rather than a separate standalone standard in Malaysia. We believe some of the smaller practitioners and SMPs will find this guidance useful for their staff to better understand the requirements to perform an effective audit of LCEs.

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

**Comment:**

Please see our comments on the cover letter.

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

**Comment:**

As indicated, more guidance around the definition of LCE will be required to ensure consistent usage and application of this proposed standard. In addition, greater focus and consideration on how to deal with new information and complexities encountered during the course of the audit are required to minimise any unintended consequences to the practitioners.

Upfront engagement with third-party stakeholders to clearly articulate the benefits to them on how the quality and effectiveness of the audit of LCEs will be maintained when using this standalone standard is critical to remove any misconceptions of a lesser quality audit requiring less efforts and costs and therefore justifying lower fees.

The longer term development needs of audit staff who are only trained to perform audits under this standalone standard and not the extant ISAs must be addressed to avoid there being 2 tiers of auditors which cannot be good for the profession as a whole.

**Question 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?**

**Comment:**

We have no other comments other than those that have already been highlighted in our earlier responses.

**Section 4G – Approach to Consultation and Finalization**

**Question 19**

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

**Comment:**

Please refer to our responses in Question 3(c). In addition, a continuous feedback process from the engagement of stakeholders and practitioners on the practical implementation challenges and other barriers which may discourage the use of this standard will be helpful.

**Question 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.**

**Comment:**

This question is not relevant to us.



**Question 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.**

**Comment:**

If it is issued as a standard, the proposed timing is appropriate.

**Section 5 – Group Audits**

**Question 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.**

**Comment:**

We are of the view that group audits should be included as there are many group structures which are fairly simple and straightforward as therefore lend themselves as being less complex entities or structures in accordance with the definition in the proposed standard.

**Question 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?**

**Comment:**

As indicated, we are suggesting that this proposed ISA for LCE to be issued as an approved guidance rather than as a separate standalone standard.

Notwithstanding whether it is issued as an approved guidance or a standalone standard, it can still be used even if group audits are excluded though that there may be many less complex entities within the groups that will not be able to benefit.

**(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?**

**Comment:**

We do not have any specific percentage of the group audits within our member firms that would likely be able to use this proposed ISA for LCE.

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

**Comment:**

The common example of group structure which is considered as less complex group in Malaysia is a holding company with wholly owned subsidiaries with no or little business activities other than owning an asset (e.g. a piece of land).

**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**

**Comment:**

We prefer Option 1, i.e. to establish a "cut-off" or threshold for when the proposed standard may be used (these proxies relate specifically to group audits as it is assumed that the group would not otherwise be excluded due to the other limitations set out in the Authority to use the standard). These 'indicators of complexity' could include, for example:

- The involvement of component auditors.
- When entities or business units included in the group financial statements are situated in multiple locations that are in different jurisdictions or subject to different regulatory requirements.

**(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.**

**Comment:**

We disagree with Option 2 as it gives rise to the use of more judgement and which may result in different interpretations and inconsistent treatment and application.

**Question 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?**

**Comment:**

We believe that the proxies for complexity presented in paragraph 169 are sufficient. We do not have other comments.

**Question 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.**

**Comment:**

Our preference is Option (a) where all the requirements pertaining to group audits be presented in a separate part, so that it is easier to understand the impact of group audits in one location and for the purpose of reference by those without group audits.