

To IAASB

Dear colleges

Please find the attached comments for ED ISA for LCE project

Preparation of a separate standalone standard ISA for LCE should not violate the created unified field of standardization of auditing activities. The approach used to the ISA for LCE introduces risks of violating the fundamental principles of the technology that has already been created as of now (January 2022). These may cause incompatibilities and inexpediency of actions of auditors of different jurisdictions.

Looking for the special place of the ISA for LCE, the currently adopted approach to this project creates much more difficulties in the standardization system and unjustifiably high concerns about how to conduct audits for less complex entities.

Given the special place of the ISA for the LCE, the currently adopted approach to this project creates much more difficulties in the standardization system and unjustifiably high concerns about how to conduct audits for less complex entities.

We believe that for ISA for LCE, we can use the approach that is implemented for the audit of the group. ISA 600 is perfectly harmoniously integrated into the structure of the ISAs as a standard that forms requirements for the specifics of auditing the reporting of more complex entities, business structures (groups of enterprises, holding structures, etc.). ISA for LCE should take a similar place. The ISA for LCE should also contain special requirements in relation to the specifics of auditing the statements of less complex entities.

At the same time, it is important that special attention be paid to the criteria for determining medium and small business entities in different jurisdictions. There cannot be infinitely many criteria. And taking into account the established groups of criteria for the LCE, it is possible to develop a standard that deals with the specifics of audit work with such entities, with subsequent revisions of the standard, as is customary in the existing IAASB practice.

Today we have a universal and effectively applicable auditing technology and standards describing it. These standards are relevant for working with entities of any complexity, scale of activity and industry specifics and can be applied in a cost-effective way to all audit tasks, including the audit of the LCE reporting.

An ISA project for LCE can be effective only if it does not introduce violations in the consistency, efficiency and high quality of the audit.

In the practice of auditing the financial statements of the LCE, auditors often encounter more common and complex issues, as a result, and with higher volumes of work. But this is often due to the fact that the subjects of the LCE use simplified approaches to the internal control system, including, among other things, ineffective counteraction to fraud or the absence of any actions of the organization in relation to this counteraction, accounting practices, specifics of building processes. All of the above may significantly affect the preparation of financial statements.

The main problem that exists today in the practice of applying the ISA is the lack of methodological recommendations and disclosure of information with greater detail, including practical examples. IAASB can eliminate this circumstance by focusing attention and activities on increasing the transparency and clarity of the information set out in the ISA, which is formed in the texts of standards using the principles of brevity and expediency. This may cause special difficulties for auditors.

Thus, ISA 600 does not contain detailed information about the various structures of groups of enterprises organized de jure or de facto through ownership, as well as about single-industry groups and multi-industry groups that contain different levels of management and different models, processes for the formation of

consolidated financial statements. Those auditors who are well aware of the technology and standards, and have a diverse practical experience in auditing the group's financial statements, are fully prepared for the qualitative implementation of the requirements of ISA 600 in conjunction with other standards. We propose to issue explanations and recommendations concerning the above example, which would contribute to ensuring the quality and efficiency of the audit.

The approach defined by the ISA for the LCE is more likely to complicate the work of auditors, rather than bring clarity. We, the auditors, just need to get additional information from the ISA developer about the technology and the specifics of its application, which would not violate the integrity and adequacy of the already formed standardization field.

The introduction of a separate standard will cause difficulties in application with further changes in standards. There may be situations when changes to the ISA will be accepted in the jurisdiction, but they will not be accepted in a separate ISA for LCE for technical, including temporary or other reasons. Thus, the audit practice will be very different for those who use ISAs and those who use ISA for LCE.

We propose to name the new standard "International Standard of Auditing (ISA): Features of the audit of financial statements of medium and small entities (ISA for MSE)". This standard should specify groups of criteria for determining medium and small businesses, including, inter alia, the scope of activities, the number of employees, the complexity of the technology used, processes, etc., as well as the specifics of the audit process and the requirements (instructions) for the actions of auditors, taking into account the presence of certain criteria of medium and small entities (MSEs). At the same time, it is necessary to preserve the inclusion of cross-references to other standards in the text of the standard in compliance with the existing standardization system.

The draft ISA for LCE in the variant that we are considering, with a high probability can directly affect the quality of work if the standard is really independent, and will not be used in combination with the ISA in certain (suitable) circumstances. The proposed standard is not easier to understand and use by those persons who already apply ISAs. It introduces dissonance into the system of existing standardization. The result of this will be an increase in the risks of ensuring the quality of work, the consistency of the application of standards and the effectiveness of the audit.

Even when using ISAs for LCE in combination with other ISAs, the production of supporting guidance materials will be required, both at the initial stage and on an ongoing basis.

At the same time, the requirement of compliance with applicable standards or applicable requirements of a specific standard remains. This opportunity gives the auditor the right to document the inapplicability of the requirements of individual standards or standards in general during the audit of IFRS statements, which in turn will not cause problems as indicated by the ISA in the auditor's report.

It would be advisable to conduct an assessment of the risks associated with:

- with the simplification of approaches to the audit of the LCE's reporting in case the standard is given the status of "independent";
- with a direct impact on the quality of work, if the IAASB has not yet conducted this assessment.

Therefore, it is of great importance that the IAASB continues to direct its efforts to maintain the quality and operability of standards for auditing entities of any size and complexity using the "do not harm" principle, widely known in medicine.

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