



International Auditing and Assurance Standards Board
(IAASB)
529 Fifth Avenue
New York, 10017
United States of America

January 24, 2022

Comments Exposure Draft “Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities” (ISA for LCE)

Dear Sir or Madam,

SRA appreciates the opportunity to commend on the IAASB’s Exposure Draft “Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities” (ISA for LCE), as issued on July 23, 2021.

SRA is an association of 375 accounting firms, based in the Netherlands. We represent 80% of the top 50 largest firms in our country. Considering the nature of our member firms, with a substantial client base in the SME-market, we take a special interest in the subject matter of the ED.

We welcome the initiative taken by the IAASB to focus a specific project on the audits of LCE’s, rather than on SME’s. We support the reasons mentioned in the ED to take such an initiative.

Comments

In our response to the ED we will follow the Specific Questions included in the ED.

- 1.(a) Par. 16 of the Explanatory Memorandum (E.M.) states, that the IAASB has chosen to develop a separate standard to focus on audits of LCE’s.

We note that the 2019 Discussion Paper “Audits of Less Complex Entities” also mentioned the option to revise the ISA’s to address scalability more explicitly and make the auditor’s work effort clearer.

In our September 10, 2019 comment letter on the Discussion Paper, we voiced a strong preference for the latter option, which would lead to one integrated set of ISA’s. We regret that the IAASB has chosen the option of a stand-alone standard for LCE’s, and we regret that the E.M. does not provide any arguments for this essential choice.

In our view there are a number of strong arguments against the choice for a stand-alone standard for LCE’s:

1. Two different sets of standards can be regarded by stakeholders as leading to an audit with a difference in status: an A-Audit and a B-Audit. Using two sets of standards as well as the effects on the status of these different audits because of that, could seriously increase the expectation gap between users and auditors and diminishes the value of the audit.
2. Two different sets of standards will exist while the framework for these sets is uniform.
3. Any update of standards will be much more complex for all parties involved in the process in the case of two different sets of standards. For example consultation will be made more complex without reason. Updating two sets bears also the risk of inconsistency between both sets.
4. Use of a stand-alone set for LCE’s will also lead to transition problems when moving from one set to the other.



5. In an audit of group financial statements group auditors may, in order to achieve an efficient audit, have to deal with 2 different sets of standards. This may lead to inconsistencies in the group-audit.
6. From an educational perspective it is best to have one consistent set of standards, based on one framework.

As a consequence, using ISA for LCE according to the draft exposure will be too complicated in practice; And as a result there is a serious risk that the use of the standard will be very limited. The aim of the IAASB in developing this standard will then not be reached.

We get the impression that the proposed ISA for LCE has been derived from the present ISA's via a top-down approach. In our view, requirements for all audits should be based on a bottom-up approach, thereby making a strong base on which more detailed requirements can be built. These basic requirements could partly be principle-based.

Following this approach a distinction could be made within the present ISA's between basic requirements for all audits (including LCE's) and other requirements, applicable to complex entities. Requirements applicable to all audits could be named key or basic requirements. Of course, it is essential to have a clear wording of these key or basic requirements.

In an audit of group financial statements, the suggested approach will lead to an efficient audit of a combination of complex and less complex entities. The group auditor should be responsible for deciding the audit approach of each entity.

Based on the above arguments we urge the IAASB to seriously reconsider the approach chosen of developing a stand-alone standard for LCE's. In our view, an integrated set of standards (the ISA's) leads in the long run to a much more effective use of the standards and contributes to an effective process of standard setting.

- 1.(b) The IAASB proposes to name the stand-alone standard: ISA for LCE's. The main argument provided in the E.M. is, that the name could be distinguished from the ISA's. The full name proposed is: International Standard on Auditing (ISA) for Audits of Financial Statements of Less Complex Entities (ISA for LCE). In our view this name suggests that the new standard is part of the ISA's, which is not intended by the IAASB. As explained under 1.(a) above, we feel the best approach would be to integrate the requirements for LCE's in the present ISA's.

However, if the IAASB decides to issue a stand-alone standard for LCE's, such a standard should - in our view - be part of the existing ISA's in newly created series. Arguments for this approach are in our view provided in Par. 75 of the E.M., which states that all requirements of the (existing) ISA's which are relevant to an LCE, are included in the proposed standard. It is also vitally important that the LCE-audit is aimed at achieving reasonable assurance, as is the case in an ISA audit.

As a consequence, there is no reason to make a distinction in case of an LCE audit (e.g. in the engagement letter and in reporting) between an audit in accordance with ISA's and in accordance with the stand-alone standard, as all relevant requirements are complied with following the LCE-standard.

We conclude that a separate name for the proposed standard is unnecessary, and bears the risk to contribute to confusion with stakeholders about the status of an LCE-audit; the impression on the basis of e.g. the engagement letter and reporting could well be that a B-audit has been executed.



- 1.(c) In Par. 27 of the E.M. it is stated that in the circumstance that there is one complex item in the audited financial statements, ISA for LCE may not be used. As a consequence in a case with a mix of complex and less complex items in the audited financial statements ISA for LCE may not be used either.

We do not agree with this proposal as it is inefficient. An integrated set, however, makes it possible in one audit engagement to follow both the LCE and the complex requirements, based on the professional judgement of the auditor.

The prohibition in Par. 27 will no doubt in practice lead to a further problem in using ISA for LCE and thus further limit the use of the standard. Also taking into account the arguments presented above under 1.(a) and 1.(b) to integrate the standard in the existing ISA's, we feel that there is no reason for the proposed prohibition in use of ISA for LCE. Both in the engagement-letter and the auditor's report a reference to the ISA's will suffice.

In circumstances like these the requirements for LCE's could be followed, with some additional work, based on requirements for the complex item(s). This will be efficient in auditing less complex items and will not lead to omission of relevant requirements for such items.

2. Conforming amendments to the IAASB Preface should be adapted to the choices made by IAASB regarding the status of the standard.
- 3.(a) The Authority is described in terms of prohibitions to use the stand-alone standard.
We note, that the September 2019 Discussion Paper describes LCE's in terms of qualitative characteristics and in a positive way: when can the set of LCE standards be used. We prefer this approach to describing the Authority or a combination of the two approaches (positive qualitative characterization and certain prohibitions)
- (b) No comments, other than mentioned above.
 - (c) No comments
 - (d) See (a) above
 - (e) Yes
- 4.(a) Under A7(d) an audit of group financial statements is excluded from use of ISA for LCE.
In circumstances where a group is exclusively composed of entities which fulfill the qualitative characteristics of an LCE it is illogical to prohibit the use of ISA for LCE.
We also do not understand that under A12 the possibility for firms is provided to further limit the use of ISA for LCE. This specifically applies to the stand-alone version of the standard. In our view firms should not be given this authority; the possibility to opt for using ISA for LCE should be given to the engagement partner.
5. We suggest to limit the guide to the minimum.
6. No other comments, than above. The question suggests that finalizing ISA for LCE is more or less a formality. We urge the IAASB to reconsider the approach chosen to develop a stand-alone standard.
7. (a through d)
We support the key principles used in developing ED ISA for LCE. We specifically note, that in ISA for LCE 1.4.1. it is stated, that only relevant requirements have to be complied with. This implies, that if the circumstances, addressed by a certain requirement do not exist, this requirement is void.
8. We support the overall design and structure of ED ISA for LCE, taking into account the comments under 1 (a) through 1 (c).

9. Part 2

Within the documentation requirements the term “significant matter” plays a key role. We note that this term as such is not defined in the glossary of terms. For the documentation requirement to be clear, it is essential to provide such a definition.

Part 3

The definition of “significant matter” is also important to the role of the engagement partner.

Part 6/7

We note that these parts entail some 30 pages of proposed requirements in the text of proposed ISA for LCE. This description of requirements is too extensive and detailed. Considering the aim and authority of the standard, the requirements should be condensed and be limited to requirements, which are essential to an LCE-audit.

Reference is made to our proposal under 1 (a) to include key or basic requirements in integrated ISA's. As an example of a too detailed description of requirements we can mention the related parties paragraph. There are seven requirements in this regard, some of which break down into various sub-requirements.

10. (a through c)

Taking into account the comments provided under 1.(a) and 1.(b) above, the reference in the auditor's report should be to ISA's and not to ISA's for LCE, to avoid confusion with stakeholders about the status of the audit which has been performed.

11. Reference is made to question 5.

12. See question 9 above.

13. If the comments under 1.(a) and 1.(b) above are followed, transition problems will be avoided.

14. Integrating the ISA's for LCE in the ISA's as suggested under 1.(a) above would avoid that two sets of standards of standards have to be updated, which will be a complicated process for all parties involved in the updating process.

15. We support the possibility of early adoption.

16. Inclusion of a separate part on the 800-series is not necessary.

17. (through to 21)
No comments.

22. (through to 26)

Reference is made to comments under 1(a) regarding audit of group financial statements and to comments under 4(a).

Please do not hesitate to contact me, if you have any questions on the content of this letter.

Yours faithfully,

Paul Dinkgreve RA
Chairman of the Technical Audit Board
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