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Mr Tom Seidenstein,
Chair,
International Auditing and Assurance Standards Board,
529 Fifth Avenue, 6th Floor,
New York,
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Dear Mr Seidenstein

Exposure Draft – *Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)*

Crowe Global is delighted to present a comment letter on the Exposure Draft *Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)*. Crowe Global is a leading global network of audit and advisory firms, with members in more than 130 countries.

We welcome the effort that the IAASB has made to develop a standard for the audit of the financial statements of less complex entities (LCA) and for prompt progress of the project. It is important that the IAASB responds to the concerns that have been raised about the application of ISAs to the audits of less complex entities and develops a global standard that meets these demands. This maintains the integrity of global standard setting and mitigates the risk that was presented to that integrity by some of the reported national initiatives. When the standard is issued, national regulatory authorities and standard setters will have the responsibility to determine whether and how to implement the standard. It is right that the standard recognises this responsibility and the limits of the IAASB's jurisdiction. Regarding the prompt progress that the IAASB has made with this project, we trust that lessons have been learnt for IAASB due progress and will be applied to other standard setting projects. This will demonstrate that the IAASB is responsive to the need to develop standards in the interests of enhancing audit quality and will be appreciated by stakeholders.

The proposed standard is clear, well-structured, and reads well. Our members who perform audits of the financial statements of entities that may come within the scope of the standard consider that they be able to apply the standard and perform a quality audit. In our comments to the detailed questions, we have suggested that flexibility should be permitted to enable ISA requirements to be applied in certain circumstances and that ISAs be applied, particularly ISA 600 (Revised) for group audits.

However, we have several concerns that the IAASB ought to consider as it finalises and implements the standard. These are:

1. There is a perception that the standard will give rise to “second class audits performed by second class auditors”. Eligible entities might request an audit under this standard as they might perceive the audit as costing less and being less rigorous. During implementation the IAASB together with adopting national oversight authorities and standard setters must rebut this perception, communicate the foundational principles of the standard, and generally that the standard has been developed in the interests of delivering quality audits. However, it may be difficult to mitigate this perception in countries where there is no oversight or where the oversight process is less developed. Post implementation review should include looking for evidence that the standard has resulted in an impairment of audit quality and identifying what must be done to remediate this.
2. There are concerns about the practicality and cost for audit firms about supporting dual audit systems. During implementation, the IAASB together with adopting national oversight authorities and standard setters must work with and support the providers of audit documentation applications to facilitate the implementation of the standard, including the ability to smoothly move between ISA and ISA for LCA.
3. There are also concerns that as some auditors will predominantly or only work with the standard, the ability of these auditors to apply ISA will be diminished. This could create issues about the audit quality of the work performed by these auditors when they are required to apply ISA, including as component auditors. Group auditors have the responsibility to support component auditors and the consistent application of standards. During the implementation of ISA 600 (Revised), the IAASB must remind group auditors about their responsibility for the consistent application of standards across the group audit, including supporting those component auditors whose primary experience and audit resources relate to the LCE standard. A case study could be prepared.

Our responses to the questions in the Exposure Draft are presented in the appendix to this letter.

After this standard has been approved and issued it is important that the continued development of the standard and associated support materials becomes embedded in the IAASB’s strategy. We recognise that the IAASB has consulted on the process for the periodic review of the standard, but continuing to support those auditors who use this standard, between revisions, is important, and will be beneficial for the adoption and credibility of the standard

We trust that our comments assist IAASB in progressing this project. We shall be pleased to discuss our comments further with you.

Kind regards

Yours sincerely



David Chitty
International Accounting and Audit Director

Appendix – Response to Questions for Respondents *Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)*

	Question	Response
	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?	Auditors cannot ignore their knowledge and understanding of the requirements of the full ISAs. Therefore, in the interests of good audit quality and the exercise of professional judgment, we do not understand why an auditor should not apply a requirement of the full ISAs in an audit of LCE, where the auditor considers this necessary. The reasons for applying the requirement of the full ISAs should be documented.
	(b) The title of the proposed standard.	We agree with the title of the proposed standard.
	(c) Any other matters related to ED-ISA for LCE as discussed in this section (Section 4A).	
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 agree with the conforming amendments to the IAASB Preface.
	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?	The Authority as presented is implementable, but we comment below our view regarding application of the standard for the audit of group financial statements.
	(b) Are there unintended consequences that could arise that the IAASB has not yet considered?	We do not consider that they are any unintended consequences.
	(c) Are there specific areas within the Authority that are not clear?	The Authority is clearly presented, but we comment below our view regarding application of the standard for the audit of group financial statements.
	(d) Will the Authority, as set out, achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard?	The Authority as presented does appropriately inform stakeholders about the IAASB's intended scope of the standard.
	(e) Is the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in	We agree that national legislative and regulatory bodies, and standard setters should make the

	individual jurisdictions clear and appropriate?	decision as to whether the standard is proposed for application in an individual jurisdiction, and what the scope of any application ought to be, taking into account national considerations such as audit exemption thresholds and the market need for audits that fall within the intended scope of the standard.
4.	<p>Do you agree with the proposed limitations relating to the use of ED-ISA for LCA? If not, why and what changes (clarifications, additions or other amendments) need to be made? Please distinguish your response between the:</p> <p>(a) Specific prohibitions; and</p> <p>(b) Qualitative characteristics.</p> <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>	We agree with the proposed limitations, with the exception to those that relate to the application of the standard for the audit of group financial statements. We comment on this below.
5.	Regarding the Authority Supplemental Guide:	
	(a) Is the guide helpful in understanding the Authority? If not, why not?	The guide is helpful in understanding the Authority.
	(b) Are there other matters that should be included in the guide?	There are no other matters that should be included in the guide.
6.	Are there any other matters related to the Authority that the IAASB should consider as it progresses ED-ISA for LCE to finalization?	There are no other matters relating to the Authority that the IAASB should consider.
	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).	We are comfortable with the approach to how the ISA requirements have been incorporated in the proposed standard.
	(b) The approach to the objectives of each Part of the proposed standard (see paragraphs 78- 80).	We agree with the approach to the objectives of each Part of the proposed standard. Alignment,

		where appropriate, with the objectives of the relevant equivalent ISA is right.
	(c) The principles in relation to professional scepticism and professional judgment, relevant ethical requirements and quality management (see paragraphs 81-84)	Principles in relation to professional scepticism and professional judgment, relevant ethical requirements, and quality management are foundational for the performance of an audit. We agree with how these principles have been used in the proposed standard.
	(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.	The concept of “EEM” appears right in the context of trying to create a workable standard that addresses the demand for a standard on the audit of less complex entities. Presenting EEM as “explanation” or “guidance”, constructed following broad principles, is appropriate and avoids having application material as presented in the ISAs. We note that the IAASB acknowledges that implementation support materials are required. Such materials accompany all IAASB standards and are welcome, but in the case of this standard they must avoid being a proxy for “application material” as associated with ISAs.
	Content of ED-ISA for LCE	
8.	Please provide your views on the overall design and structure of ED-ISA for LCE, including where relevant, the application of the drafting principles (paragraph 98-101).	We agree with the approach taken to the overall design and structure of the proposed standard, and of the application of the drafting principles.
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.	Parts 1 to 8 are clearly presented, readable, and flow well. The presentation of EEM appears right in the context of the overall material. The content of these parts has resulted from extensive effort by the IAASB. At this stage, we do not feel the need to present a list of detailed observations. We do, however, believe that the IAASB should take every opportunity in the text to stress the importance and application of the principles of the exercise of professional scepticism and professional judgment, ethical requirements, and quality

		management. In the IAASB's final review of the text when preparing for approval by the Board, we should like to see more references through the standard to these principles.
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.	<p>We agree with the presentation, content, and completeness of Part 9. The approach appears consistent with the ISAs.</p> <p>Before the standard is finalised by the IAASB, we encourage the Board to revisit the description of the standard presented in the audit report. "ISA for LCE" is an Auditing Standard issued by the IAASB that applies ISA requirements in an LCE context. There could be a better way to describe the standard, and this better way would enhance the credibility and acceptance of the standard in practice.</p>
	(b) The approach to include a specified format and content of an unmodified auditor's report as a requirement?	We do not have an issue with including a specified format in Part 9, but in practice, most auditors will report using a national template developed and issued by national regulatory authorities and standard setters, reflecting the application of national law and regulation, and of the standard as adopted in that country. The report included in Part 9 can assist national authorities and standard setters.
	(c) The approach to providing example auditor's reports in the Reporting Supplemental Guide.	Presenting a Supplemental Guide with examples is consistent with the approach of the ISAs. Examples provide auditors with a reference point when preparing modified reports.
11.	With regard to the Reporting Supplemental Guide:	
	(a) Is the support material helpful, and if not, why not?	The support material is helpful and serves a similar role of the content of the ISA 700 series of standards.
	(b) Are there any other matters that should be included in relation to reporting?	What is presented is sufficient.
12.	Are there any areas within Parts 1–9 of the proposed standard where, in your view, the standard can be improved? If	As we commented above, we consider that the standard could be improved by taking every

	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.	opportunity in the text to stress the importance and application of the principles of the exercise of professional scepticism and professional judgment, ethical requirements, and quality management.
	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?	We do not see any challenges with transitioning to the standard.
	(b) What support materials would assist in addressing these challenges?	<p>The role of support materials could include clarifying understanding regarding the difference between ISA requirements and the requirements of this standard. This will assist users as they could unwittingly apply ISA requirements that are not ordinarily within the scope of this standard (subject to our observation about the application of the standard in our response to question 1).</p> <p>Support materials will also assist the providers of automated audit applications with adapting their products for application with this standard.</p>
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 to the future updates and maintenance of the Standard and related supplemental guidance.
15.	For any subsequent revisions to the standard once effective, should early adoption be allowed? If not, why not?	Early adoption, in line with the implementation date of the equivalent ISA should be permitted.
16.	Should a separate Part on the ISA-800 series be included within ED-ISA for LCE? Please provide reasons for your response.	To avoid creating further Parts to the proposed Standard, users should be permitted to the ISA 800 series of standards if the themes of these standards are relevant to the engagement.
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:	The proposed standard meets the needs of users and other stakeholders. In making this statement, we believe that the IAASB would enhance the standard by allowing some of the additional flexibility that we have commented upon in this response whereby on relevant occasions ISA requirements can be applied.

	(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).	
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?	There are no other matters that we believe that the IAASB needs to consider.
	Approach to Consultation and Finalisation	
19.	What support and guidance would be useful when implementing the proposed standard?	The IAASB ought to issue an Implementation Guide and multi-media introductory materials, consistent with the resources issued to support new and revised ISAs. In the case of this proposed standard, support to the providers of automated audit applications is important, because of the reliance that auditors place on these applications.
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 are not aware of any translation issues.
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.	The implementation of ISA for LCE is likely to require changes to audit documentation tools and the presentation of audit resources, beginning with the change of references to underlying standards. To allow sufficient time for familiarisation and implementation of applications and supporting resources, the effective date ought to be for the audits of financial statements for accounting periods beginning on or after the 15 December that is at least twenty-four months after approval by the IAASB.
	Group Audits	
22.	The IAASB is looking for views on whether group audits should be excluded from (or included in) the	We consider that if an LCE is required by law or regulation or chooses for its own business and

	<p>scope of ED-ISA for LCE? Please provide reasons for your answer.</p>	<p>strategic reasons to prepare group financial statements and an audit is required then that audit can come within the scope of ED-ISA for LCE.</p> <p>As the IAASB has invested significant time and effort in the development of ISA 600 (Revised) we consider that rather than including group audit requirements within the content of ED-ISA for LCE, ISA 600 (Revised) should be applied. To assist with the performance of a group audit, the IAASB could prepare a staff publication that assists with the application of ISA 600 (Revised) alongside ED-ISA for LCE.</p> <p>We consider that this is a straightforward solution for those circumstances where an LCE prepares group financial statements that requires the minimum of additional effort. In view of proposing this solution, we shall not respond to questions 23 to 26.</p>
23.	<p>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>(a) Would you use the standard if group audits are excluded? If not, why not?</p> <p>(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>(c) What common examples of group structures and circumstances within your practice would be considered a less complex group.</p>	<p>See response to question 22.</p>
24.	<p>If group audits are to be included in the scope of ED-ISA for LCE, how should be done (please provide reasons for your preferred option):</p>	<p>See response to question 22.</p>

	<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>	
25.	<p>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>	See response to question 22.
26.	<p>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>(b) Presenting the requirements pertaining to group audits within each relevant Part.</p>	See response to question 22.