

14 February 2022

Willie Botha — Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017

Dear Mr. Botha:

IAASB Exposure Draft – Audits of Financial Statements of Less Complex Entities

Deloitte Touche Tohmatsu Limited (DTTL) is pleased to have the opportunity to provide comments on the exposure draft, *Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities* (“ED-ISA for LCE” or “the proposed standard”), issued by the International Auditing and Assurance Standards Board (IAASB or “the Board”).

DTTL supports the IAASB’s commitment to address the issue of complexity of its standards through multiple avenues, including the development of the ED-ISA for LCE, exploring whether a standalone standard may serve both auditors and the marketplace as a separate, simpler, alternative to performing an audit under the full suite of International Standards on Auditing (ISAs). The thorough and thoughtful analysis performed by the IAASB in drafting the ED-ISA for LCE is evident in the mapping documents developed, which considered each and every requirement in the ISAs and how they should be incorporated into, modified, or excluded from the proposed standard. However, we have numerous concerns with the ED-ISA for LCE and our firm likely would not adopt it as drafted for the following reasons:

- The possibility that not all National Standard Setters and/or regulators will allow for usage of the proposed standard as drafted, or that most do adopt but with modifications to the Authority across jurisdictions, which would make consistent adoption across the global network very difficult
- Deloitte has already adapted/scaled the ISAs within our methodology, technology, and tools; exclusion of group audits in the ED-ISA for LCE results in a very narrow range of eligible entities; accordingly, revising our methodology, technology, and tools for the very limited scope would not be cost effective

Regardless of Deloitte’s decision whether or not to use the proposed standard, we do not believe it is fit for broader use in its current state and have concerns about whether usage by other firms/auditors would be in the public interest. See our comments below for more information.

Overall comments:

- *Authority/Definition of an LCE – Inconsistency in Application*

We believe that the level of professional judgment necessary when evaluating the qualitative characteristics described in the Authority to determine whether an entity could be audited under the proposed standard could lead to inconsistencies in application, and possible misuse of the proposed standard. Without additional examples in the Authority Supplemental Guidance of what entities would be considered in scope, the Authority could be open to significant interpretations and lead to situations in which either: 1) auditors more easily and inappropriately justify use of the proposed standard when in actuality the ISAs should be followed, or 2) auditors are hesitant to use the proposed standard due to concerns that they might be challenged by regulators. In addition, because of inconsistencies within the Authority, it is not clear whether having a single “qualitative characteristic that limits use” would prevent application of the proposed standard— see excerpts from paragraph A9 of the proposed standard below, with emphasis added:

- “...the [draft] ISA for LCE *is inappropriate* for the audit of the financial statement if an entity *exhibits one or more* of the following characteristics”
- “*Each* of the qualitative characteristics *may on its own not be sufficient* to determine whether the [draft] ISA for LCE is appropriate or not in the circumstances, therefore the matters described in the list are intended to be considered both individually and in combination.”

- *Scalability in drafting*

We would have preferred a standard which was more clearly distinguished from the full suite of ISAs, created using a “building block approach” with truly scaled and easy-to-understand wording, instead of focusing on reducing length by removing application material and some of the requirements of the ISAs to create this standalone standard. We are concerned that the current drafting of the ED-ISA for LCE may not bring the wanted scalability into the proposed standard because usage of the same wording from the requirements in the ISAs as in the ED-ISA for LCE does not introduce any scalability or “how to apply” the requirements, and in fact implies that the same procedures continue to be performed for both types of audits. We recommend that the IAASB consider a more tailored approach to drafting the words of the requirements in a way that makes the “ability to scale” more actionable, as opposed to focusing on which requirements can be removed from the ISAs when performing an audit of an LCE. In addition, to highlight the differences between the ISAs and the ED-ISA for LCE and to help auditors with transition between the two sets of standards when necessary, it would be helpful to have a summary of what procedures would not need to be performed during an audit that complies with the proposed standard, as compared to an ISA audit

- *Standalone nature*

There is a risk of confusion in the marketplace, including perception that a separate standard implies that it produces “a different, lesser quality audit” but yet one that still provides reasonable assurance to users. We are also concerned about the lack of transition guidance for those instances when it is necessary to move from using the proposed standard back to the full ISAs (especially in the longer term when auditors may no longer have the knowledge of the ISAs as a base); accordingly, we recommend including transition guidance in the Authority Supplemental Guidance.

- *Adoption by National Standard Setters, interest/demand by marketplace*

The most fundamental question related to the proposed standard is “can, and will, it be used?” We are supportive of a global approach to auditing smaller, less-complex entities – instead of fragmentation in solutions by jurisdiction; however, we recognize that input from national standard setters and regulators regarding expected adoption, as well as users/entity management regarding the perceived value of an audit performed in compliance with the ED-ISA for LCE, will be critical in determining whether the ED-ISA for LCE would be applied by auditors if issued by the IAASB.

If many national standard setters or regulators prohibit the usage of the proposed standard, or even modify the Authority to suit their needs or preferences, the objective of “one global solution” will not be achieved. We recommend that the IAASB conduct additional outreach as necessary, to understand the concerns of these stakeholders and evaluate whether any possible modifications that they are considering could or should be incorporated into the ED-ISA for LCE in order to achieve wider adoption around the world.

It is also important to understand the “marketplace” reaction to the proposed separate standard, to gauge the understanding/interest/demand of users and entity management for this different engagement – because without proper education, users may have the incorrect perception that audits of LCEs provide less assurance than an audit performed under the ISAs and entity management may only focus on the assumption that audits of LCEs should “cost less” because “less work is being performed.” In addition, entity management and those charged with governance need to understand the proposed standard as they will be involved in assessing whether it is appropriate to use. Specifically, as the audit report will clearly state that the audit is conducted under the proposed standard instead of the ISAs, the engagement letter will also include this fact, which means that the auditor and management/those charged with governance will both need to reach the conclusion that usage of the ED-ISA for LCE is appropriate instead of the ISAs (i.e., the provisions of the Authority

have been met, and users/management/those charged with governance have either requested or agreed to usage of the proposed standard).

- *Prohibition of Use for Group Audits*

We do not believe that being a group automatically means there is complexity in the audit. Many small and simple group structures are only established for tax or other non-business-related reasons (e.g., estate planning). We believe that excluding all group audits from the proposed standard will considerably reduce its applicability and we recommend that the IAASB strongly reconsider this prohibition and instead add further considerations for auditors to evaluate when assessing the applicability of ED-ISA for LCE in a simple group audit situation. Such considerations could include the number of components involved in the group, the number of jurisdictions, and the complexity of the structure.

Outreach and Re-exposure:

We strongly encourage the IAASB to continue its outreach to key stakeholders and work together with other national auditing standard setting bodies as the comment letters from this exposure draft are considered, in order to develop a final standard that can be adopted across multiple jurisdictions to reduce confusion and inconsistency in execution. We anticipate that, given the focus of this topic by various stakeholders around the world (many with differing objectives), a diverse range of comments from this ED-ISA for LCE will likely be received. We are confident that the feedback obtained will be carefully considered and addressed, and the response re-exposed if deemed necessary by the IAASB.

DTTL appreciates the opportunity to provide perspectives on the exposure draft and would be pleased to discuss this letter with you or your staff at your convenience. If you have any questions, please contact me via email (jkottkamp@deloitte.com) or at +1 212-436-4401.

Very truly yours,



Jeff Kottkamp

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