

## OPTIONAL RESPONSE TEMPLATE: PROPOSED ISA FOR LCE

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**Organization (*where relevant*):** Public accountant

**Country/Region/Jurisdiction:** Argentina

All opinions and points of view outlined in this document are my own and they do not necessarily represent the views of any company, employer, organisation or committee.

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## General Comments on Proposed ISA for LCE

### Response:

I think that the proposed ISA for LCE falls short in simplification and reduced requirements compared to ISAs. I support the concept that the ISA for LCE should allow to obtain reasonable assurance (otherwise, if less than reasonable assurance is to be provided, then performing engagements under ISRE 2400 or ISRS 4410 may be useful). In other words, if reasonable assurance is not obtained, it would not be an audit. Calling “audit” something that provides less than reasonable assurance may wide the expectation gap even more. That being said, I think the IAASB should consider reducing or simplifying requirements related to things that, in my opinion, do not affect the level of assurance provided, like:

- 1) Independence requirements: I understand independence requirements do not affect the level of assurance provided (in fact, public interest entities have substantially different independence requirements) but are related to providing stakeholders with a stronger appearance of objectivity of auditors. In other words, it does not affect the work being done but gives a stronger sense of objectivity of the work being done. Some independence requirements are really difficult to address for smaller audits, especially for very small firms and sole proprietorships where application of safeguards to address self-review threats for some non-assurance services is difficult because of the lack of sufficient personnel in the audit firm. Therefore, I think that simplified independence requirements for audits performed under ISA for LCE would not be contrary to public interest (as by definition “LCE” have little public interest) and would provide significant relief for these engagements. Also, I understand that it worked well in the UK (where such provisions exist).

I am aware that independence is out of the scope of IAASB work, but it is under IESBA authority. Nonetheless, I think it should be useful to refer to the IESBA consideration the feasibility of introducing some specific independence provisions for audits performed under the ISA for LCE similar to the provisions available for audits of small entities in the UK. Application of the provisions may be informed in the audit report (like in the UK) or may require approval of TCWG, or even be prohibited if there is any stakeholder objecting to them in a specific engagement.

- 2) Quality management requirements: I understand quality management is not related to the level of assurance provided on the financial statements but providing a greater assurance that the audit work has been performed under the applicable standards (in other words, it is assurance on the audit work, not assurance on the financial statements), so amending the QM requirements will not mean than less than reasonable assurance is provided. I am not proposing amending ISQM standards, but maybe some requirements in the quality management provisions in the ISA for LCE may be simplified. In particular, ISA for LCE may determine that appointment of engagement quality reviewer (EQR) is not required for audits performed under the standard, unless required by law and regulations.

I think such relief would avoid having to assess if an EQR is necessary for audits performed under ISA for LCE. I think it is unlikely that EQR will be relevant for most, if not all, audits qualifying for application of ISA for LCE (I think is unlikely many accounting firms concluding that an engagement needs appointing an EQR will also conclude that the same engagement can be performed under the ISA for LCE). Maybe in order to form a conclusion about the proposal, the IAASB may consider useful to consult accounting firms how many of the audits that would qualify for application of ISA for LCE are currently appointing EQR, if not required by laws and regulations. In my experience, it is highly unlikely.

Of course, nothing would preclude audit firms to appoint an EQR for an audit of ISA for LCE, if they want to.

- 3) Documentation requirements: I understand documentation requirements are not related to the level of assurance provided but to document work performed for quality management purposes (so another auditor is able to review the work performed) and to form a basis for subsequent engagements. Therefore I understand that reducing/simplifying documentation requirements should not affect level of assurance as long as the audit work remains the same. Some of the documentation requirements in ISA for LCE that I think the IAASB should consider removing or changing are as follows (either because I think they are not relevant for LCE or because there is some redundancy in requirements):
- a) 2.5.1.(a) (iii): I think it would be useful to change the requirement to document who reviewed the audit work performed and the date of such review, but excluding extent of review. In practice, in most less complex audits the review includes most aspects of the work performed, therefore clarifying the extent of review seems excessive.
  - b) 5.5.2. (a): I think describing nature, timing and extent of planned risk identification and assessment procedures should not be required because in most LCE audits, due to the short time frame of most less complex audits, some of the risk assessment procedures are performed simultaneously with some substantive procedures that are always performed (like reading minutes of meetings and correspondence with authorities) in a single visit (sometimes some of these risk assessment procedures may be performed jointly with the acceptance and continuance procedures). Therefore, this requirement would mean that the auditor would be required to document planning of procedures that were already performed. In some cases, this requirement may be complied with a checklist/template of enquiries and documentation to be reviewed as part of the firm methodology, but for many small audits it may be more efficient to have an “open” meeting without previously determined list of questions.
  - c) 6.8.1. (b): I think auditor should be permitted to disclose only the list of related parties for which the entities have balances and transactions with, and the changes from prior period (not related parties that do not have transactions with the entity). For this purpose, the auditor may be permitted to refer to the disclosures in financial statements, if applicable, with supplemental comment if there is a related party omitted in the financial statements.
  - d) 6.8.1. (f): I think this requirement should be amended. First, controls should be excluded unless falling under 6.8.1.(e), because most estimates in LCE should be expected to be relatively simple low risk estimates. Second, the linkage of RMM to further procedures is already required by 7.7.1 (b), so there is a risk of duplication.
  - e) 6.8.2: I think this requirement should be removed as it is redundant and contradictory with the requirement in paragraph 4.8.3. Under 4.8.3 the auditor is only required to document changes in the determination of the use of the standard (a conditional statement) but 6.8.2 requires a explicit evaluation about whether the standard remains to be appropriate. I think that, for the sake of simplicity, the requirement in 4.8.3 should remain while the 6.8.2 is removed.
  - f) 7.7.1.(e): I think it would be better to move the requirement to paragraph 5.5.4 (where materiality is mentioned).
  - g) 8.9.1 (a): I think this requirement should be amended. The first part (clearly trivial) is already included in 7.7.1 (e) and I proposed moving to 5.5.4. The second part (accumulated misstatements) is already partially included in 7.7.1. (e) but adding conclusion about if the

uncorrected misstatements are material and the basis for that conclusion. I think the second part (including conclusion and basis for conclusion) should be included in either 7.7.1.(e) or 8.9.1. (a), but not both (especially if a different text is used). I prefer location in 8.9.1. (a). as it is more related to conclusion. The reasons for not correcting misstatements should also be documented (refer to paragraph 8.2.1.)

- 4) Communication requirements: I understand that not all communication requirements are relevant for risk assessment and therefore for level of assurance. I think some communications are only relevant to this objective of ISA 260 which is unrelated to level of assurance provided: providing TCWG with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process. I am aware that my point of view may be controversial in some cases, but I think that some of these communication requirements makes little sense in some cases of weak TCWG oversight.

Some of the communications requirements that I think should be removed or changed are:

- a) 1.8.8.: this requirement should not be applicable if all TCWG members are also part of management (very common in LCE), even if only some members of TCWG or management are not suspected to be involved in the fraud, or if TCWG is considered to be not independent of management. For example, even if TCWG is not part of management they may be family members or legal advisors of the entity. In those cases, informing TCWG of nature, timing and extent of audit procedures to address the suspected fraud may alert management, reducing effectiveness of audit procedures.
- b) 5.4.1.: I think this requirement should be removed. It is different to ISA 260 requirement because ISA 260 only requires communicating to TCWG (not management). Communicating to management may reduce the effectiveness of the audit procedures especially in smaller audits because audit procedures will be more predictable, especially in very small audits. On the other hand, communicating to TCWG will not be relevant for obtaining reasonable assurance, may add costs in smaller audits (designing communication of audit planning for very small audits may add an excessive number of hours in audits expected to be completed in 100 hours or less) and may be ineffective if TCWG is not actively involved in the audit (very common in some jurisdictions for smaller private companies). For example, in many entities TCWG is formed by family members of management with little business knowledge or legal advisors who are not interested in the audit process or sometimes even in the financial reporting process. Removing this requirement may allow to accommodate to many circumstances where this requirement is not effective, while still allowing auditors to communicate if relevant to the specific case (for example, where there is an actively involved TCWG or jurisdictions where this communication is expected). It may be incorporated as a requirement in specific jurisdiction, if relevant.
- c) 6.7.1: I think this requirement should be removed for similar reasons as 5.4.1.
- d) 7.6.1.a): I think communication of significant deficiencies in internal control to TCWG should be permitted to be oral. In LCE some members of TCWG may have little background of accounting and internal control and may be challenging to design an appropriate communication in writing without supplementing with oral explanations. I think it would be better to provide oral explanations in a meeting showing the audit documentation about significant deficiencies in internal control and having a candid discussion. Nonetheless, as mentioned before, many members of TCWG are family members or legal advisors with little interest in the audit process or with little interest in these matters (in practice, in many cases they forward the

written communication to management without even reading it). Therefore, it should be permitted to omit communications of significant deficiencies in internal control to TCWG if agreed in writing by TCWG (e.g. in the engagement letter, if signed by TCWG), unless prohibited by laws and regulations (only communicated to management, unless it is inappropriate to communicate them directly to management in the circumstances, just like matters calling into question the integrity or competence of management). Nonetheless, reluctance of TCWG to be informed about significant deficiencies in internal control may be considered by the auditor as a red flag indicating lack of oversight over internal control.

- e) 7.6.1.b): as mentioned above, communication should be permitted to be oral instead of in writing (in practice, the communication may be made oral in a same meeting including both management and TCWG which may be more practical and effective). The term “matters that have been communicated” is not clear: I do not understand if it refers to significant deficiencies in internal control or also to other matters (I think it should be related to significant deficiencies in internal control only).
- f) 7.6.2: if communication in writing is either required or permitted (I recommend permitted instead of required), the considerations in ISA 265, paragraph A29 should be considered.
- g) 7.6.3: I think this requirement should be removed as it may be highly technical and difficult to understand and explain in most cases.
- h) 8.8.1: for reasons similar to the explained in d), the auditor may be permitted to agree in writing with TCWG, unless prohibited by laws and regulations, that these communications are only made to management.
- i) 8.8.2.a): it is highly technical in nature and complex to explain and understand, and it should be excluded as a general requirement (the auditor may consider relevant to communicate it in some circumstances).
- j) 8.8.2.b), c), d), and h): for reasons similar to the explained in d), the auditor may be permitted to agree in writing with TCWG, unless prohibited by laws and regulations, that these communications are only made to management.
- k) 8.8.2.f) and i): should be combined in a single requirement of communicating the expected form and content of the audit report, including any EM or OM paragraphs.
- l) 8.8.3: for reasons similar to the explained in d), the auditor may be permitted to agree in writing with TCWG, unless prohibited by laws and regulations, that these communications are only made to management.

All others required communications in the ISA for LCE may be required in all cases, even if TCWG is not interested in the communication because they are critical for TCWG to take responsibility for the financial statements and also for the auditor’s evaluation of risk (also, only 3, 4 and 5 may be applicable for all audits, while the rest may apply only in specific circumstances). For example:

- 1) Fraud communications (1.8.6, 1.8.7 and 8.8.2.e).
- 2) Non-compliance with laws and regulations should be added (it is mentioned in 2.5.2 and 2.5.5. as documentation requirement, and in 7.4.25, but not as a explicit communication requirement).

- 3) Communication of respective responsibilities of management, TCWG and auditor (4.3.1.b) and 4.7.1): this requirement may be met by providing engagement letter.
- 4) Written communications the auditor is requesting (8.8.2.g): this requirement may be met by providing representation letter
- 5) Communicating the expected form and content of the audit report, including any EM or OM paragraphs (8.8.2.f and i)
- 6) Effect of uncorrected misstatements (8.8.4)
- 7) Going concern considerations (8.8.5)

Generally, it would be more efficient to make these relevant communications to both management and TCWG at the same time (unless it is inappropriate to communicate them directly to management in the circumstances, just like matters calling into question the integrity or competence of management).

If some communications requirements are excluded as mentioned above, the paragraph of “Auditor’s Responsibilities for the Audit of the Financial Statements” in the audit report should be amended accordingly.

#### Other comments

Paragraph 7.4.8.a): reference to “manual and automated” journal entries should be removed to be consistent with paragraph 32 of ISA 240. In practice, auditors generally consider automated journal entries to be low risk and therefore exclude them from testing (unless there is a specific risk arising from IT controls deficiencies). The specific mention to automated journal entries may be confusing, and some auditors may interpret it as requiring specific inclusion of automated journal entries for testing in every case, which may be inconsistent with prevalent practice under ISA 240.

## **Specific Questions**

### *Section 4A – 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?

**Response:** I generally support the standalone nature of the ISA for LCE. Nonetheless, I think that specific complexity factors (which are not pervasive for the engagement), for example the existence of a few complex estimates, should not prohibit the use of the ISA for LCE. In fact, except for some very small entities, it would be rare for an engagement to not have at least some complexity (e.g. significant risks, other than mandatory fraud risks, typically exist in virtually all audits, and significant risks are likely to have at least some complexity). It would be better for the ISA for LCE to mention that if there are some specific complex issues in the audit (which are not so pervasive that makes use of the ISA for LCE inappropriate) the auditor should perform additional procedures to address the complexity and the auditor may consider the requirements in ISAs as guidance (in practice, the audit firm methodology will probably address those issues, for example requiring use of specific procedures for complex estimates).

- (b) The title of the proposed standard.

**Response:** I think the title is appropriate.

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

**Response:** N/A

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?

**Response:** Yes

#### *Section 4B – 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?

**Response:** I think references to prohibitions and restrictions in specific jurisdictions are redundant because it is clear that auditors cannot use the ISA for LCE if not permitted in the jurisdiction. Also, even if the jurisdiction prohibits the use of ISA for LCE, the auditor may be able to use it in the audit of a component for group audit purposes, or if the financial statements are to be used in a foreign jurisdiction (i.e. a jurisdiction other than where the entity is located) where use of the ISA for LCE is permitted or required.

Prohibition by firm policy is also redundant because it is actually a voluntary decision (even if made at network level instead of local firm level). Stakeholders are unlikely to be aware of firm policies in this regard, so inappropriate use when firm policy prohibits its use, would be an “internal” matter of the audit firm to be resolved under the internal rules of that firm or network.

I also disagree with the prohibition for group audits as I will further explain later.

I think there should be a general restriction for PIEs. Regarding qualitative characteristics, I think the analysis should be made overall instead of analysis specific factors on an individual basis. It should be clear that the objective of the “qualitative” analysis is related to the lack of consideration of complexity in the ISA for LCE. Therefore if an engagement is considered to be complex, use of the ISA for LCE would be inefficient because of the need to consider additional guidance to address that complexity in order to meet the objectives of the standard and obtain reasonable assurance. The IAASB should consider including a list of examples of factors which may create complexity and how those factors are not addressed in the ISA for LCE, so the auditor may form his or her conclusion regarding the suitability of the ISA for LCE for the engagement objective. It should be clear that existence of isolated complexity factors does not necessarily mean that use of ISA for LCE is not appropriate. It should be clear that if the auditor has significant doubts about the suitability of the use of ISA for LCE in the engagement circumstances, it is likely that ISA for LCE is not appropriate for the engagement (in other words, it should be relatively clear that the engagement is not complex to use ISA for LCE).

(b) Are there unintended consequences that could arise that the IAASB has not yet considered?

**Response:** Refer to comments in 3 (a)

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

**Response:** Refer to comments in 3 (a)

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

**Response:** Refer to comments in 3 (a)

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

**Response:** Refer to comments in 3 (a)

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.

**Response:** Refer to comments in 3 (a)

5. Regarding the Authority Supplemental Guide:

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

**Response:** I think the guide is useful in general, but the comments in 3 (a) should be considered.

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

**Response:** I think the guide is useful in general, but the comments in 3 (a) should be considered.

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

**Response:** N/A

#### *Section 4C – 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).

**Response:** I generally agree with the approach.

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

**Response:** I generally agree with the approach.

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

**Response:** I generally agree with the approach. Nonetheless, even when I know that it is out of the scope of IAASB work, I think some limited exceptions for bookkeeping services should be included in IESBA code for audits under the ISA for LCE (similar to the alternative provisions for audits of small entities in the UK ethical standard). Also it may be clarified that an audit performed under ISA for LCE does not require appointing an EQR.

- (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.

**Response:** I generally agree with the approach.

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

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).

**Response:** I generally agree with the approach.

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

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.

**Response:** I generally agree with the approach.

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.
- (b) The approach to include a specified format and content of an unmodified auditor's report as a requirement?
- (c) The approach to providing example auditor's reports in the Reporting Supplemental Guide.

**Response:** I do not think requiring a specified format and content may be appropriate due to the diverse requirements in different jurisdictions. A more flexible approach may be needed to accommodate different jurisdictions.

11. With regard to the Reporting Supplemental Guide:

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

**Response:** Yes

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

**Response:** N/A

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.

**Response:** N/A

#### *Section 4F – 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?

**Response:** I think the most complex issue is the existence of complex estimates arising subsequent to engagement acceptance or continuance. This issue may create significant complexities and practical difficulties.

If complex estimates are not considered in the ISA for LCE, a recurrent issue may also be recurrent transitioning from ISA for LCE to ISAs and later from ISAs to ISA for LCE in consecutive years because of one-time or extraordinary complex estimates. For example, if the ISA for LCE had been effective in the FY 2020 audits most companies would have faced a few complex estimates arising from COVID-19 which will be of less complexity in subsequent years. Also one-time complex estimates like signing of equity settled stock options (where the complexity is generally on the grant date where fair value of stock options needs to be calculated but it is significantly less complex in subsequent years) or business combinations, especially if goodwill is amortized (assuming group audits are not excluded from ISA for LCE).

I think the most practical approach would be including separate requirements for complex estimates based on ISA 540 or making reference to ISA 540 requirements for complex estimates (auditors would need to refer to these requirements only if they have complex estimates and only for those complex estimates which it should be expected to be not more than a few, so it should not affect most audits while providing significant relief from audits of LCE which experience isolated complex estimates). Another option would be to make a brief reference to the need to apply enhanced procedures if a complex estimate is identified (clarifying that the existence of more than a few complex estimates is an indicator that the ISA for LCE is not appropriate), where examples of enhanced procedures may be included in an appendix to ISA for LCE or make reference to ISA 540 as supplemental guidance.

Also, it may be useful to include a recommended paragraph in engagement letters to mention that the auditor may be required to transition out of ISA for LCE if matters coming to auditor's knowledge subsequent to acceptance or continuance indicate that use of ISA for LCE is not appropriate because of complexity and a brief mention of the impact that transitioning may have. This recommendation is made because of the significant issues and discussions that transition may have for entities (for example the entity may disagree that use of ISA for LCE is not longer appropriate and the auditor may need to resign, if possible under local laws and regulations). Also specific requirements for acceptance and continuance related to transitioning may be useful.

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

**Response:** I think the most practical approach would be including separate requirements for complex estimates based on ISA 540 or making reference to ISA 540 requirements for complex estimates. Another option would be to make a brief reference to the need to apply enhanced procedures if a complex estimate is identified (clarifying that the existence of more than a few complex estimates is an indicator that the ISA for LCE is not appropriate), where examples of enhanced procedures may be included in an appendix to ISA for LCE or make reference to ISA 540 as supplemental guidance.

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

**Response:** Yes. Nonetheless in the rare cases where changes to ISAs arise which are incompatible with ISA for LCE (I do not mean additional or enhanced requirements in the full ISAs, but requirements where compliance with ISAs will mean that an audit may not comply with ISA for LCE because of substantial different approaches), then immediate action is needed to avoid issues related to: 1) complexities in firm's methodologies for auditors performing some engagements under ISAs

and other engagements under ISA for LCE, or 2) auditing a component for group audit purposes under ISAs and performing a statutory audit under ISA for LCE for the same entity.

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

**Response:** Yes, the same as ISAs

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

**Response:** Yes, I think it is critical because it is very common for LCE to use special purpose frameworks (e.g. tax standards). Also a LCE may be required to provide an audited statement of financial position, or an audit of specific accounts (e.g. revenue) for compliance with specific regulations or contractual requirements (for example, in the case of a merger). It should be a separate section.

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.

**Response:** I think it is unlikely that ISA for LCE will be used in Argentina for statutory audits because most LCE audited by local firms (not part of Forum of Firms which are required to have methodologies based on the ISAs) are audited under local audit standards which are significantly less rigorous than proposed ISA for LCE (for example, they do not require a written audit plan or some basic procedures like journal entries testing) and there is a significant reluctance in the local audit profession to implement stronger audit requirements for SMEs. Nonetheless it may be used for audits of components for group audit purposes (assuming group audits are not excluded from the scope) instead of ISAs.

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

**Response:** I think some reduced requirements are needed (refer to my general comments at the beginning of this comment letter).

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

**Response:** N/A

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?

**Response:** N/A

#### *Section 4G - Approach to Consultation and Finalization*

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

**Response:** Guidance. I think templates and guidance like in the “Guide to using ISAs in the audits of SMEs” will be useful. Also, a sample audit manual showing audit methodology compliant with ISA for

LCE may be useful (so it can be adapted in different jurisdictions or firms), as it is something that some jurisdictions, like Australia, have for audits of SMEs under ISAs.

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.

**Response:** I do not anticipate any issues because the ISA for LCE will use the same glossary as ISAs.

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.

**Response:** I think the effective date is less relevant if earlier application is permitted. Nonetheless, I think a longer period (i.e. 24 months) may be needed in some jurisdictions and firms to address translation, training and review of audit methodology, and even adaptation to local jurisdictions.

#### *Section 5 – Group Audits*

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.

**Response:** I strongly believe that group audits should be included in the scope of ISA for LCE. The main reason is that 2 similar entities with similar operations should not be considered to be of different complexity just because one of them is a group audit while the other is not. I will provide a few examples to illustrate my point (just to clarify, the examples should not be considered to be rare cases because, at least in my opinion, they are not):

- 1) A LCE currently qualifies for ISA for LCE. Later, the entity is divided in 2 subsidiaries reorganized under the control of a holding company. It makes no sense that the audit of the holding company is considered complex just because it is a group audit because the complexity of the engagement is substantially the same. Also, if audit of consolidated FS of holding company is to be performed under ISAs, probably auditors will need to use ISAs for the audit of the 2 subsidiaries (otherwise it would be difficult for the auditor of holding company to assess compliance with ISAs even if the group auditor is the same as component auditor).

A similar case would be if an entity split part of its operations in 1 or more new entities, becoming a group audit where the new entities are components.

- 2) A LCE qualifies for ISA for LCE. Later, the entity acquires a share in an associate but the operations remain substantially the same. It makes no sense that the entity now is out of the scope of ISA for LCE because little change in complexity is observed. It is more absurd if the associate is an immaterial component.
- 3) A LCE is out of the scope of the entity just because it includes joint ventures and joint operations as part of the operations where those entities perform the same activities of the entity for specific projects. A similar entity performs the same

activities in collaboration with a partner but without creating any separate entities (i.e. joint ventures or joint operations) and it qualifies for ISA for LCE because it is not a group audit. Use of joint ventures and joint operations are widely used in some industries, like construction, oil & gas and biotechnology. The joint ventures and joint operations may even be immaterial for the group.

- 4) A small group of entities which individually qualify for ISA for LCE (and have their audits performed under ISA for LCE) are under the control of an individual. Later, the individual asks the auditor to perform an audit of combined financial statements, but the auditor is precluded to apply ISA for LCE just because it would be a group audit, forcing the auditor to reperform the audit of at least some of the components under ISAs for group audit purposes.
- 5) An entity has operations in country A and country B (carried out by the same entity) but it is considered to be a LCE. A similar entity decides to carry out similar operations under 2 separate subsidiaries, one in each country, but it does not qualify for ISA for LCE just because it is a group audit.
- 6) In many cases, an entity may have only immaterial or even dormant subsidiaries. It does not seem reasonable to be a reason for exclusion of the scope of the ISA for LCE.
- 7) First scenario: a non complex entity is one of 2 subsidiaries in a group under control of a holding company (where both subsidiaries are non complex entities), and the subsidiary is a significant component for the group. Second scenario: a substantially similar entity is one of 100 subsidiaries in a large group, and the subsidiary is not a significant component for the group. In the first scenario, the subsidiary is likely to be required to be audited under ISAs to meet group audit needs (otherwise it would be difficult for the group auditor to assert compliance with ISAs). In the second scenario, the subsidiary is likely to not be required to be audited for group audit purposes, so it may apply ISA for LCE for statutory audit. It does not seem consistent.

It may be argued that many group audits are generally complex because they have exposure to different economic environments and regulations in different jurisdictions, typically have more complex accounting issues like goodwill impairment, step-up fair value adjustments and consolidation adjustments, and generally involve coordination with component auditors. I strongly reject those arguments because:

- 1) Many groups operate in a single economic environment and similar regulations, and even in the same jurisdiction. Carrying out the same activities under 2 different entities does not necessarily add significant complexity.
- 2) Even if the group operate in multiple economic environments and regulations, or even different jurisdictions, the conclusion about complexity should not change on the grounds of the audit being a group audit or not. In other words, if a single entity performs operations under multiple economic environments, regulations and jurisdictions, it may be considered a complex entity disregarding its nature as a “non-group audit”. So, the classification as a group audit or not should be generally irrelevant to assess complexity.
- 3) Not all group audits have goodwill (for example, book-value method common control business combinations do not have goodwill or fair value adjustments), and even entities

having goodwill may not be required to perform mandatory impairment testing but amortization (which is a significantly less complex estimate). However, even if mandatory impairment testing of goodwill exist, it should not be basis for excluding application of the ISA for LCE because it may be an isolated complex estimate (i.e. a single complex estimate should not preclude an entity to be considered less complex) or goodwill may even be immaterial.

- 4) Consolidation adjustments may be complex in large and complex groups, but may be very simple in smaller groups, especially where there are only a few intercompany transactions.
- 5) In many group audits, audits of the components is performed by the group auditor or by the same audit firm. Nonetheless, the mere existence of a different component auditor, even if in a separate jurisdiction may not considered to be a complexity factor, especially if the component is not significant.

Also, an issue to be considered is that there are engagements which are similar to group audits but technically they are not. For example, letter-box audits and shared services centers. If group audits are excluded, it would be unclear if those audits qualify for ISA for LCE or not. It is true that most (but not all) audits involving shared services centers may be complex and large audits, but I can assure you that many letter-box companies are not complex at all (for example, it is very common for start-up companies).

In conclusion, I think that group audits should not be excluded per se, but complexity of the group as a whole should be considered.

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?

**Response:** In my personal opinion, I think that if group audits are excluded the application of the standard would be significantly reduced. Not only for small group audits but also for audits of small components in smaller groups where the group auditor is likely to require the component auditor to apply ISAs if the component is significant to the group.

- (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?

**Response:** I think many group audits in Argentina are not complex because they typically have only a few components and generally in the same jurisdiction. I currently work for an international mid-tier firm but I worked before for a local smaller firm and they were more than a few small non-complex groups among audit clients.

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

**Response:** Smaller groups, with simple operations in no more than a few jurisdictions (or even in a single jurisdiction).

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
- (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.

**Response:** I think the option 2 is better, because it reflects the complexity of the group as an entity. Option 1 would not be reasonable as it would create unreasonable outcomes like excluding an entity from the scope of the standard just because there is component auditor working in the audit of a non-significant component. Having to include all ISA 600 requirements should not be an issue because the requirements are relatively easy to comply with for small non-complex groups.

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?

**Response:** I think the best approach is considering the qualitative characteristics of the group as a whole (as if it were a single entity). I think the most relevant factors to assess if complexity exist are the qualitative characteristics of the entity, its economic environment and its operations, rather than the group structure. This is further illustrated in my answer to question 22.

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.

**Response:** I think presenting the requirements in a separate part will be preferable for 2 reasons: 1) It is the same approach in the ISAs; and 2) including requirements in a separate part may allow greater differentiation of the specific requirements applicable for group audits, so the auditor may be able to better identify the additional requirements to be performed for group audits compared to other audits which do not qualify as group audits.