

January 31, 2022

Mr. Tom Seidenstein
 Chair, IAASB
 529 Fifth Avenue
 New York, NY 10017
 United States of America

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

Dear Chairman Seidenstein,

For the past 50 years, HLB International has been one of the go to networks for small and medium-size entities (SMEs) and we strongly believe that the invaluable contribution made by SMEs to economies worldwide cannot be underestimated.

It is for this very reason that the significant efforts undertaken not only by the International Auditing and Assurance Standards Board (IAASB), but also by the International Federation of Accountants (IFAC) and the Forum of Firms to consider and address issues which touch small and medium-size firms, have not gone unnoticed and are greatly appreciated.

Auditors of SMEs face many challenges in applying the ISAs and addressing the challenges they face is important to ensure that widespread global usage of the ISAs continues. Please find following our commentary regarding the questions noted in ED-ISA for LCE:

Section 4A – Overarching Positioning of ED-ISA for LCE	
<p>1. Views are sought on:</p> <ul style="list-style-type: none"> (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? (b) The title of the proposed standard. (c) Any other matters related to ED-ISA for LCE as discussed in this section (Section 4A). 	<p>We respectfully disagree with the standalone nature of the proposed standard. There are many components of the ISAs that are applicable and helpful in the audit of an LCE. We view knowledge of the complete body of the ISAs to be a pre-requisite to choosing to utilize ED-ISA for LCE. Removing the ability to utilize relevant ISA requirements when faced with a circumstance that has not been contemplated in the design of ED-ISA for LCE will impair the ability of practitioners to utilize professional judgement in planning and executing an audit. In addition, we do not believe that giving auditors the ability to refer to the ISAs is likely to result in inappropriate usage of ED-ISA for LCE.</p>

	<p>We agree that ED-ISA for LCE should contain requirements that will result in a reasonable assurance opinion. However, we disagree that the audit opinion should identify which standard(s) have been applied in conducting the audit and should instead refer only to being conducted in accordance with the ISAs. As long as the standards utilized result in a reasonable assurance opinion, we believe the framework utilized is the judgement of the practitioner. To have an audit opinion refer to anything but the ISAs overall may create the perception of a lower quality audit.</p>
<p>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?</p>	<p>No comment offered by network.</p>
<p>Section 4B – Authority of the Standard</p>	
<p>3. Views are sought on the Authority (or scope) of ED-ISA for LCE (Part A of the proposed standard). In particular:</p> <ul style="list-style-type: none"> (a) Is the Authority as presented implementable? If not, why not? (b) Are there unintended consequences that could arise that the IAASB has not yet considered? (c) Are there specific areas within the Authority that are not clear? (d) Will the Authority, as set out, achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard? (e) Is the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions clear and appropriate? 	<p>We do not believe the Authority as presented is implementable. As ED-ISA for LCE cannot define complexity this has to be done on a national level. It is not practicable to set quantitative thresholds at the global level, so local authorities and firms will define the scope of the standard more precisely, including quantitative criteria such as entity size. There might be instances where two auditors come to different conclusions regarding the complexity assessment for the same entity and this might confuse entity’s management, users and the regulators. It should be emphasised that existence of qualitative characteristics may not give rise to complexity on its own and the aggregate impact of the characteristics should be considered by the auditor when deciding on the appropriateness of ED-ISA for LCE.</p>
<p>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</p>	<p>We agree with the exclusion of listed entities. However, we do not agree that an entity that meets one of the noted criteria in paragraph 51(c) of this section should be automatically excluded from accessing ED-ISA for LCE. For</p>

<p>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>	<p>example, some entities that provide post-employment benefits are small, non-complex entities and would be inappropriately excluded. We also do not agree with the exclusion of an audit of group financial statements in paragraph 51(d) as a group audit, is not, by itself, a proxy for complexity.</p>
<p>5. Regarding the Authority Supplemental Guide:</p> <p>(a) Is the guide helpful in understanding the Authority? If not, why not?</p> <p>(b) Are there other matters that should be included in the guide?</p>	<p>No comment offered by network.</p>
<p>6. Are there any other matters related to the Authority that the IAASB should consider as it progresses ED-ISA for LCE to finalization?</p>	<p>No comment offered by network.</p>
<p>Section 4C – Key Principles Used in Developing ED-ISA for LCE</p>	
	<p>No comment offered by network.</p>
<p>Section 4D – Overall Design and Structure of ED-ISA for LCE</p>	
	<p>No comment offered by network.</p>
<p>Section 4E – Content of ED-ISA for LCE</p>	
	<p>No comment offered by network.</p>
<p>Section 4F – Other Matters</p>	
<p>13. Please provide your views on transitioning:</p> <p>(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?</p> <p>(b) What support materials would assist in addressing these challenges?</p>	<p>We do not believe that it should be relatively rare for an audit of an entity to need to transition after engagement acceptance or continuance from using ED-ISA for LCE to using the ISAs. In particular, many less complex entities may not recognize that a unique transaction or circumstance would exclude it from ED-ISA for LCE and this may not be detected by the practitioner until well into the engagement. We believe the provisions described in paragraph 139 would be punitive to a practitioner and result in many practitioners electing to not utilize ED-ISA for LCE as the auditor would effectively need to start over in their audit work and documentation. We do not believe support materials would sufficiently assist in addressing these challenges.</p>

14. Do you agree with the proposed approach to the future updates and maintenance of the Standard and related supplemental guidance?	No comment offered by network.
15. For any subsequent revisions to the standard once effective, should early adoption be allowed? If not, why not?	No comment offered by network.
16. Should a separate part on the ISA-800 series be included within ED-ISA for LCE? Please provide reasons for your response.	No comment offered by network.
<p>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:</p> <p>(a) Whether the proposed standard can, and will, be used in your jurisdiction.</p> <p>(b) Whether the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.</p> <p>(c) Whether there are aspects of the proposed standard that may create challenges for implementation (if so, how such challenges may be addressed).</p>	<p>We do not believe ED-ISA for LCE would meet the needs of users and other stakeholders as even if a jurisdiction permits usage of the proposed standard, many auditors will be unlikely to utilize the proposed standard due to the standalone nature of the standard and the punitive transitional provisions to the full ISAs. These challenges could be addressed by instead including ED-ISA for LCE within the ISAs and removing any transitional provisions if an auditor determines the entity is no longer less complex.</p>
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?	<p>While we acknowledge and appreciate the IAASB’s increased focus on scalability and proportionality in its recent projects on ISA 540 (Revised) and ISA 315 (Revised), we respectfully submit that the practical outcomes of both revised standards have imposed further documentation burdens on SME audit practitioners, increasing the time to complete an audit with minimal benefit to the entity under audit or third party users.</p> <p>We suggest that the IAASB should re-examine the standalone nature of the proposed standard and instead consider incorporating the standard within the ISAs. Inclusion of the proposed standard within the ISAs could instead focus on exempting LCE audits from some of the more onerous components of the ISAs, including:</p>

	<p>(a) Specific components of ISA 315 such as risk assessment procedures in ISA 315.13, understanding internal controls in ISA 315.14-19 and .22-.24 and responding to risks arising from information technology in ISA 315.18 and 315.21.</p> <p>(b) Specific components of ISA 240 such as identification and response to fraud risk in ISA 240.27, incorporating an element of unpredictability in the selection of procedures in ISA 240.30(c) and journal entry testing in ISA 240.33 (a).</p>
Section 4G – Approach to Consultation and Finalization	
	No comment offered by network
Section 5 – Group Audits	
	No comment offered by network

We trust the IAASB will carefully consider all stakeholder feedback arising from ED-ISA for LCE with the view of obtaining a final outcome which will serve the public interest and that of audit practitioners.

Please do not hesitate to contact us should you require additional explanations regarding our responses to the questions raised in ED-ISA for LCE.

Yours sincerely,



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Global Assurance Leader



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International Assurance Committee