

## OPTIONAL RESPONSE TEMPLATE: PROPOSED ISA FOR LCE

### Guide for Respondents

- The International Auditing and Assurance Standards Board (IAASB) has published this separate Microsoft Word document for respondents to use for submitting their comments, if they wish. The questions below are from the exposure draft of proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities Management (ED-ISA for LCE), which is available at [www.iaasb.org/publications/exposure-draft-proposed-international-standard-auditing-financial-statements-less-complex-entities](http://www.iaasb.org/publications/exposure-draft-proposed-international-standard-auditing-financial-statements-less-complex-entities).
- Respondents are asked to comment on the clarity, understandability and practicality of application of ED-ISA for LCE. In this regard, comments will be most helpful if specific aspects of ED-ISA for LCE are identified and the reasons for any concerns along with suggestions for improvement, are included. Specific suggestions for any proposed changes to wording in ED-ISA for LCE are also welcome.
- **Respondents are free to address only questions relevant to them, or all questions.** When a respondent agrees with the proposals in ED-ISA for LCE, it will be helpful for the IAASB to be made aware of this view as support for the IAASB’s proposals cannot always be inferred when not explicitly stated.
- We request that comment letters do not include tables as they are incompatible with the software we use to help analyze respondents’ comments.

**Comments are requested by January 31, 2022**

<b>Name of Respondent:</b>	<u>Instituto Mexicano de Contadores Publicos, A.C.</u>
<b>Organization (<i>where relevant</i>):</b>	<u>Instituto Mexicano de Contadores Publicos, A.C.</u>
<b>Country/Region/Jurisdiction:</b>	<u>México</u>

## General Comments on Proposed ISA for LCE

**Response:** *Nothing in particular in addition to the comments provided below. We congratulate the IAASB for taking forward this very important initiative which will benefit a great part of the business community and the practitioners.*

## 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:**

**We share the view of a standalone proposed standard.**

- (b) The title of the proposed standard.

**Response:**

**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).

**Response:**

**We suggest clarifying or proposing the wording for the audit report in case of financial statements with comparative figures that are issued in the year of the adoption of the ISA for LCE.**

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, we agree with the proposed conforming amendments to the IAASB Preface.**

### 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:**

**If, in general terms, to reduce subjectivity in the applicability of the standard, we suggest including examples in the explanatory material or as part of the implementation guidance.**

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

**Response:**

**Nothing additional identified or that we consider could have an impact in our jurisdiction.**

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

Response:

**Regarding the “Qualitative characteristics” section, it should be more precise or essential additional explanatory material prepared by the IAASB could be included in standard or within the implementation guidance, which would facilitate the consistent application of professional judgment between different jurisdictions and even within the same jurisdiction.**

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

Response:

**We consider that the Authority will achieve the objective of adequately informing the interested parties about the scope of the proposed standard once the clarifications proposed in the previous paragraphs are included and along with a large participation and dissemination by the NSS.**

(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:

**We consider that the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority is clear for our jurisdiction.**

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:

**Yes, we agree except for the exclusion of Group audits, which is dealt with in Section 5, questions 22 to 26 of this document.**

5. Regarding the Authority Supplemental Guide:

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

Response:

**Yes, it's considered helpful; however, we considered that the essential explanatory material should be expanded with examples; also implementation material may be a helpful document to assist with this matter.**

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

Response:

**No.**

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:

**Yes, see previous answers.**

**In the event that the Group audits matter can be reassessed, material or guides may be required that deal with the applicability of the ISAs for LCE for this type of audits.**

*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 has been incorporated in the proposed standard (see paragraphs 74-77).

Response:

**We consider the approach of the proposed standard is adequate, as it is similar to the ISAs approach, and the compliance with the prescribe requirements allows obtaining sufficient appropriate audit evidence to support the auditor's opinion.**

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

Response:

**We agree with the approach of the proposed standard as it makes sense with the approach of the ISAs.**

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

Response:

**We agree with the principles associated with skepticism and professional judgment, relevant ethical requirements, and quality management set forth in the ED-ISA LCE. These concepts are addressed in a consistent and similar manner to the ISAs, establishing the requirements that the audit team should follow under the approach of 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.

Response:

**We consider that it effectively fulfills the purposes for which it was defined: it is concrete, it does not establish additional requirements, it is included only in those requirements that are considered worthy of EEM.**

- (ii) The sufficiency of EEM.

**Response:**

**We think that the EMM is included in a concrete and specific way. We only propose that EMM to be included in the part related to the qualitative characteristics related to the authority of the ISA for LCE as previously commented; however, we also support the issuance of implementation materials.**

- (iii) The way the EEM has been presented within the proposed standard.

**Response:**

**We agree that the EMM ( highlighted in italics and in blue), facilitates its reading and contributes to the understandability of the proposed standard.**

*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:**

**In general, we consider it is convenient that the ISA for LCE has been designed and structured according to the flow of an audit and this contributes to ensure that the execution follows a logical order so that the audit teams establish their work programs as well as the way in which the audit will be developed.**

**Regarding the way in which the ED has been drafted, we consider it is helpful for the understanding and implementation of the materials as it has been prepared in a concrete manner, using simple language, without too many technicalities, avoiding unnecessary repetitions and easy to read.**

*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:**

**It is observed that, in general terms, for the 8 indicated sections, they adequately segregate the regulatory aspects in the application of the content.**

**The inclusion of sections related to: a) Specific communication requirements and b) Specific documentation requirements, in the sections related to the execution of the work, is positively received.**

10. For **Part 9**, do you agree with the approach taken in ED-ISA for LCE with regard to auditor reporting requirements, including:

**Response:**

- (a) The presentation, content and completeness of Part 9.

Response:

**We consider adequate the presentation, content and the completeness of the concepts in the section of Forming an opinion and the Report, including the 8 sections referring to this topics mentioned in question 9.**

- (b) The approach to include a specified format and content of an unmodified auditor's report as a requirement?

Response:

**We consider appropriate and convenient to include the format of the auditor's report in this section as it is a relevant part of the auditor's work and helps to link the requirements set forth in this section with the respective report.**

- (c) The approach to providing example auditor's reports in the Reporting Supplemental Guide.

Response:

**Agreed; however, there is no reference in the text to these additional guidelines for the preparation of the report, it is considered convenient to evaluate making reference to them in the text of the ISA for LCE.**

11. With regard to the Reporting Supplemental Guide:

- (a) Is the support material helpful, and if not, why not?  
(b) Are there any other matters that should be included in relation to reporting?

Response:

**The Supplementary Guidance on the auditor's report is considered sufficient and useful; however, we consider that it should include an example of the other matters paragraph in the independent auditor's report in order to disclose the transition from ISAs to ISA for LCE.**

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:

**We consider parts 1 to 9 to be adequate.**

#### *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:

**Basically, the challenge is to identify what we should do to comply with the ISA for LCE, which leads us to have a clear understanding of each set of Standards and its scope, in order to know what could be missing and what we should be performing in the context of the audit work. Moreover, we consider that this is a challenge at an internal level within each firm and not a challenge that the IAASB can solve.**

**It is not clear whether it is prohibited to transition from ISA to ISA for LCE, once the audit has started. Additional guidance on this regard would be helpful for consistency of execution.**

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

Response:

**Not applicable.**

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

Response:

**We believe that such an approach is appropriate, and we are in support.**

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

Response:

**We believe that, as in the case of the standards approved for ISAs which are not yet effective, early adoption of the ISA for LCE should be allowed. Subsequent amendments will certainly aim to provide a clearer and broader understanding in the application of the standards and may establish more simplified or efficient procedures or allow a better understanding for practitioners, and therefore, early application will be favorable to improve either the documentation or understanding of new situations that arise.**

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

Response:

**Surely, we believe that a separate part of the ISA 800 series should be included within the ED-ISA for LCE. We estimate that the use of the new set of standards for LCE will be to the same extent as it will be used for entities preparing financial statements under a general purpose framework.**

**To date, only financial statements prepared under a general purpose financial reporting framework are referred to in both the glossary and paragraphs 6 to 9 of the ED-ISA for LCE. However, we will find entities that prepare their financial statements under a Financial Reporting Framework for specific Purposes or Users, which will qualify as LCE, therefore, it should be part of the project to include this type of entities.**

**In fact, ISAs refer to financial statements prepared for specific purposes only in the appendices of ISA 200 and of course in ISA 800, so we believe it is straightforward to include this section within the ED-ISA for LCE.**

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:**

**We definitely believe that the proposed standard will have wide application in Mexico, precisely because of the fact that, due to its composition, a significant part of the entities in our country could qualify as LCE for purposes of applying the proposed standard and also due to the large number of firms auditing organizations that can be classified as organizations with a small structure, which will undoubtedly welcome the proposed standard. However, we think that the intense and adequate use of the ISA for LCE will largely depend on an adequate dissemination and training programs by the organizations that gather the organized profession in our country.**

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

**Response:**

**Given its structure and content, we consider that the proposed standard will satisfy the needs of the different users, perhaps the most relevant issue that could be modified in the proposed standard is the incorporation, if necessary, of the possibility of applying the ISA for LCE in group audits, provided that qualitative criteria are established that allow a group to be classified as non-complex.**

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

**Response:**

**No major challenges are noted for the implementation of the ISA for LCE. In this sense, it will help that the organized profession in Mexico has applied the ISA for more than 10 years, which in some way should make the process of implementing a more simplified, concrete, simple and friendly standard such as the ISA for LCE less challenging.**

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:**

**In our opinion, only the topic of group audits may be relevant for its possible inclusion in the proposed standard.**

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

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

**Response:**

**Even though the Authority Guide for the application of the ISA for LCE was developed, the publication of additional materials or guides that include examples of particular and possibly complex situations, to confirm the applicability of the ISA for LCE, is considered relevant and helpful to ensure consistent application of the standard.**

**Additionally, to facilitate the implementation of the ISA for LCE, it would be convenient to publish guides that include more examples to comply with the Specific Communication Requirements and with the Specific Documentation Requirements, which are included in the sections related to the execution of the work.**

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:**

**It is recommended that the translation procedures used for the ISAs continue to be used, seeking to maintain a glossary of common terms in each language (to adapt them to each country with the same language), and also seek to maintain a standardization of the concepts translated for the ISAs and for the ISA for LCE. In our jurisdiction, a formal process for translation has been established which is in line with IFAC recommendations and approval process.**

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:**

**We agree with the period of at least 18 months and consider it sufficient for dissemination and implementation. However, we recognize that at the time of approval of the ISA for LCE it is necessary to evaluate what other projects issued by the IAASB are in the process of implementation to ensure that the dates are appropriate in each of them and that there is no saturation of activities in charge of the different jurisdictions that may prevent compliance with the proposed periods.**

#### *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:**

**We consider that certain types of group audits should be in scope, since groups do not necessarily have to be complex. The proposed standard could be applicable in groups that meet, among others, all the following characteristics:**

**i) Groups in which all the entities that comprise it are considered as non-complex within the requirements established in the authority framework of the standard; ii) That they are companies within the same jurisdictional territory and ii) That all group entities are audited by the same team and that there are no component auditors.**

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:

**Yes, since there are very numerous audits that are not a group audit.**

- (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:

**Response not provided as there is not factual data available at the moment.**

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

Response:

**We consider that certain types of group audits should be in scope, since groups do not necessarily have to be complex. The proposed standard could be applicable in groups that meet all the following characteristics:**

**i) Groups in which all the entities that comprise it are considered as non-complex within the requirements established in the authority framework of the standard; ii) That they are companies within the same jurisdictional territory and ii) That all group entities are audited by the same team and that there are no component auditors.**

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

Response:

**From our point of view, this approach is more appropriate and may be more objective, since this alternative could establish specific parameters to limit the application of the ISA for LCE for Groups, when conditions or situations such as those described above exist.**

- (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:

**The approach of establishing qualitative characteristics to define the application of the LCE standard, if any, can be very subjective and controversial when interpreting qualitative characteristics to define complexity.**

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:

**As for other ways to incorporate Group audits into the proposed standard, we consider that there are none.**

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:**

**Our proposal is option (b), to present the requirements corresponding to the group audits in each relevant part.**

**In addition, , we also consider it is convenient that the requirements applicable to group audits can be easily identified, which could be by highlighting them in a color other than blue or by noting a mark or comment on them.**