

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.
- 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

Name of Respondent:

**Chamber of Financial Auditors of Romania
(CAFR)**

Organization (*where relevant*):

Country/Region/Jurisdiction:

Romania

General Comments on Proposed ISA for LCE

Response:

CAFR is very supportive of IAASB's efforts to address the challenges that financial auditors encounter in the process of applying ISAs for smaller or less complex entities in their portfolio of clients. These types of entities represent a large segment of the Romanian economic environment and the development of a separate stand-alone standard to be used for audits of LCEs might be the solution to matters concerning scalability and proportionality of audit requirements since ISAs have evolved in order to address more and more complex entities, structures and transactions. Therefore, a standard that has been designed to be proportionate to the typical nature and circumstance of an audit of an LCE is considered beneficial by those stakeholders who have identified challenges with applying the ISAs in audits of LCEs. The initiative of the IAASB to develop a global solution to these challenges is highly appreciated, since it would be counterproductive for individual jurisdictions to produce separate auditing standards for LCEs and it would lead to inconsistencies in audit work and results. Therefore, we are hopeful that IAASB will ensure that the standard will leave little room for interpretation regarding application of the standard for LCEs, either at jurisdiction level and even less at firm or individual professional level.

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:

The development of a separate standalone standard applicable only for audits of less complex entities, which is easier to understand and follows the stages of the audit engagement, considering the complexity of the existing ISAs, is an outcome expected in the audit market both by smaller audit firms and sole practitioners who find ISAs very difficult to navigate in relation to their less complex audits, but also by big audit firms, whose portfolio of clients include smaller entities and yet, in order to comply with ISAs requirements, find themselves in the situation to use the same amount of resources, rendering smaller audits inefficient.

However, here are certain areas of concern regarding the use of the new standard:

1. In case the authority of the standard is not properly stated, both globally through the standard and individually at jurisdiction level, auditors might find themselves in the situation to make an arbitrary decision to use this standard, although it might not be appropriate for their audit client and for the needs of the users of the financial statements. Applying ISA for LCE on entities where ISAs should be applied might be tempting.
2. Users of financial statements and stakeholders might not understand the difference between the two frameworks and problems or concerns might be raised regarding audit quality in case the ISA

for LCE is used and not ISAs. IAASB should address the concerns regarding the perception of the ISA for LCE as being “lesser audit” and auditors who perform audits of LCEs might get to be perceived as less professional. This perception might, at the same time, have a great impact on audit fees and this is an issue for further discussion.

3. It will be challenging for an auditor who will have used the ISA for LCE for a longer period of time to apply ISAs in their entirety when the situation will deem it necessary (whether because of new more complex clients or because an entity could no longer be considered less complex and therefore ISAs will become applicable). Transition from one set of standards to another might create confusion and impact the audit quality.

4. The entire process of continuous professional development of auditors will have to be reconsidered in order to ensure proper training for all auditors. The process of authorization of new auditors will also suffer modifications and the access to profession exams will need to be adjusted so that all professional organizations will have to make sure their members have the necessary expertise both in ISAs and ISA for LCEs.

5. Auditors will face challenges in respect to additional costs, time and human resources in order to develop new audit methodologies, to ensure proper training of staff and to keep themselves updated on two sets of auditing standards. This might lead to an increase in the already existing gap between big audit companies who will be able to adapt easier to this situation and smaller audit companies. Also, we should take into account the fact that so far auditors have been using ISAs and they have already made use of or even developed specific audit technology to improve their work and the adoption of a new standard might raise concerns regarding the efficiency of less complex audits.

(b) The title of the proposed standard.

Response:

Considering the explanatory memorandum, the title of the proposed ISA seems appropriate, as the standard will be used for audits of entities, based on the complexity of the business and not solely on the size and although it will include ISA, we do not consider it will create confusion since it will clearly include the reference to LCEs.

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

Response:

We consider it highly important for IAASB to communicate to the public that this standard contains requirements that will result in a reasonable assurance, the same level of assurance that the use of ISAs will result in. For transparency reasons, IAASB should stress on the importance of identifying clearly in the auditor’s report the framework that was applied in conducting the audit in all explanatory materials.

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:

We agree with the proposed conforming amendments to the IAASB Preface to introduce the new category of international standard. We recommend that it should also be stated clearly that ED-ISA is applicable only for audits of financial statements and definitely not for other assurance services

(for eg. ISA 800), even though the client might be a less complex entity. An explanatory note should be included in order to not create confusion both for the auditor and for users of financial statements.

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:

We are unsure at the moment, whether the Authority as presented is implementable.

Although the standard includes specific classes of entities for which the ISA for LCE is prohibited and it also includes some qualitative characteristics that might indicate the standard is not proper to use for those types of entities. It is a matter of question whether it is recommendable that each jurisdiction should issue either guidance or regulations in order to include or exclude entities from the LCE category, as there are specific matters to be considered at national level. Such an approach might limit the level of personal judgement by auditors and it will leave less space for error or misjudgement.

IAASB should consider to issue specific guidance both for practitioners as well as regulators, including practical examples, in order to help reduce the risk of misuse of the standard.

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

Response:

One unintended consequence might be that users of the audit report who are not familiar with the two sets of standards could raise suspicions regarding the amount of work carried out by the auditor using the ISA for LCE, as well as regarding the quality of the audit performed. Practitioners to this day face challenges in the market due to stakeholders' lack of understanding of the value of an audit and its benefits for the public interest and economic environment.

Our concerns also regard the implications of the possible errors in applying the ISA for LCE by an auditor when ISAs should, in fact, have been applicable. This will result in the new auditor facing challenges regarding comparability and the necessity to extend audit procedures in order to cover areas not taken into consideration by the previous auditor when using ISA for LCE. Also, we are concerned about the implications of transitions from LCE audits to ISA audits, especially considering the number of companies that are growing. Therefore, further guidance on the Authority of the new standard will result necessary.

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

Response:

There are no other 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?

Response:

We believe that the Authority set out in in the standard, supplemented by additional guidance for auditors and regulators and communication for stakeholders might lead to proper understanding of the scope of the new 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?

Response:

The proposed role of regulatory authorities and relevant professional bodies is rather unclear at the moment and we are unsure whether the standard should offer flexibility necessary to approach and address national challenges regarding the identification of less complex entities, therefore leaving certain matters for national jurisdictions to sort out, or it should be consistent and leave fewer unsolved areas of concern for national jurisdictions For consistent application of the standard, we believe further discussions are necessary before the possible adoption of the standard

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:

Our opinion is that the specific prohibitions as well as qualitative limitative characteristics are deemed necessary and we agree with those proposed in the standard.

5. Regarding the Authority Supplemental Guide:

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

Response:

The Authority Supplemental Guide is very helpful in understanding the Authority of ISA for LCE. It cannot, however include all local or national characteristics therefore, it is important that the Standard allows for national legislative or regulatory authorities **to modify the classes of entities for which the standard is prohibited** without the possibility of removal of an entire class, as well as to set quantitative thresholds in order to avoid misjudgment. IAASB could recommend to individual jurisdictions to issue supplemental local guidance regarding the types of entities that can be considered LCEs and types of entities for which the standard could not be used.

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

Response:

More practical examples of using judgement in the decision to use ISA for LCE or ISAs as such could be helpful.

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:

We have not identified other matters to be considered.

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:

We consider the approach to how the ISA requirements have been incorporated to be appropriate as the main concepts in conducting an audit have also been included in the new proposed standard (concepts like materiality, risk-based audit approach, use of professional skepticism and professional judgement).

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

Response:

The **mapping document** between the requirements of ISAs and the proposed standard is a very useful tool and it will be beneficial for practitioners in the course of transition from ISAs to ISA for LCE. It might also be useful for continuous professional development courses and for a better understanding of the application of the new standard by interested stakeholders.

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

Response:

We consider that independence and professional skepticism are fundamental to intended users of the audited financial statements and the exercise of professional judgement is essential in a risk-based audit.

(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) The content is adequate and fit for purposes disclosed in paragraphs 87 and 88.
- ii) Regarding the sufficiency of EEM, considering the essential concepts we believe it is sufficient. But cross referencing to ISAs for further guidance or redirecting to mapping material might be of further help.
- iii) Presentation of EEM: it is very easy to follow and we consider it to be helpful for practitioners.

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:

The overall design and structure of the proposed standard will help practitioners to meet the requirements of an audit, since it follows the flow of an audit from the very early stages to forming the audit opinion and reporting. We agree with the inclusion of general, communication and documentation requirements for each of the nine parts of the proposed standard.

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:

Our comments are regarding Part 4: Acceptance or Continuance of an Audit Engagement and Initial Audit Engagements, Sub-section 4.6

All paragraphs from 4.6.1 to 4.6.6 consider that previous financial statements were audited. But if the audit client has the financial statement audited for the first time (the comparatives are not audited) a reference should be made, in a new paragraph 4.6.7. “In case the previous financial statements were not audited, the auditor report shall contain an “other matters paragraph” that disclose “the comparatives were not audited and were not in scope of the engagement”.

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:

(a) We agree with the presentation, content and completeness of Part 9.

(b) The use of a specific format we consider to be a strong point. The format and content of an unmodified auditor’s opinion is in line with the core provisions of ISA 700.

(c) Same as in ISAs, the examples are welcomed. We suggest to present an example of the auditor’s report in case there are limitations in scope or the financial statements have not been previously audited.

11. With regard to the Reporting Supplemental Guide:

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

Response:

The support material for Auditor Reporting will be very helpful for practitioners all over the world.

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

Response: No other matters considered.

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:

Aspects regarding materiality, risk assessment, fraud, sampling and going concern might require further explanatory paragraphs in order to avoid misinterpretation and lack of necessary documentation.

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:

Currently in Europe the ISAs are mandatory so the challenges will occur in the following areas:

- Communication with those charged with governance (TCWG): we believe that there might be some questions from TCWG regarding the ISA's used and we consider that they might raise some concerns regarding the possibility that the auditor **will work less for the same fee**. That will raise doubts in relation with how TCWG will perceive auditor independence and in this case the auditor or the professional bodies should be able to respond to these concerns.
- Reporting: as mentioned in paragraph 140 there will be cases in practice where current financial statements will be audited under ISA for LCE and previous financial statements had been audited under ISA. We consider the difference in applying ISA (ISA or ISA for LCE) will not diminish the auditor responsibility and nor the TCWG's responsibilities – this statement or similar shall be included in the auditor report and implementation material that will be provided alongside the release of final ISA for LCE also.

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

Response:

As a global response, additional guidance from IAASB and IFAC for issues mentioned above and guidance materials and information from other Professional Bodies or Regulators on these matters, depending also on national circumstances.

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

Response:

We strongly agree with the proposed approach to the future updates and maintenance of the Standard and related supplemental guidance.

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

Response:

Early adoption was a key element for all ISAs. After all, all national regulators and professional bodies will adopt the proposed standard based on circumstances and local regulations/transnational regulations (such EU regulations).

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

Response:

From our point of view an ISA 800 series would be highly recommended. Based on our observation of the local market, there are a lot of start-ups created by a mother company located in EU or outside EU. As a rule, parent companies request an audit of financial statements (even that local entities do not meet the criteria to be audited – statutory audit). These entities may fall into the LCE category and a set of ISAs for these types of entities are potential market demand.

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:

At the moment, considering all areas fo concern expressed in the previous paragraphs, we are uncertain whether the proposed standard will be used efficiently in or jurisdiction. Further discussion with the regulators, the oversight body and other stakeholders are necessary in order to reach a valid conclusion whether the ISA for LCE can or will be used in Romania.

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

Response:

Thus far, we are uncertain regarding the fact that the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders, but we are aware that there is a need for a consistent approach regarding the audits of LCEs and we appreciate IAASB's efforts in this area.

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

Response:

At this date a clear answer to this question is not possible as there are several other interested parties involved, such as the regulatory authority in Romania and other stakeholders.

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: No other matters identified.

Section 4G - Approach to Consultation and Finalization

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

Response:

We recommend a similar approach to the implementation and promotion of ISQMs: webcasts, dedicated website and debates organised in EU (if possible) and major geographical areas (as deemed necessary).

Also we express our concerns regarding the extent to which some essential audit areas are covered within the exposure draft and the key areas we refer to are materiality, risk assessment, fraud, sampling and going concern which need further explanatory material and guidance, or supplementary paragraphs included in the standard itself.

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:

No potential translation issues identified at this point.

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 consider that at least 18 months after approval is a reasonable timeframe.

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 group audits should be excluded from the scope of ED ISA for LCE. However, the entities that are part of group and meet the criteria of LCE application should be allowed to use it.

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:

- (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:

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

Response:

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:

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:

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: