

## 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>Dr Gary Pflugrath</u>
<b>Organization (<i>where relevant</i>):</b>	<u>CPA Australia</u>
<b>Country/Region/Jurisdiction:</b>	<u>Australia</u>

## General Comments on Proposed ISA for LCE

### Response:

CPA Australia supports the IAASB issuing a standard for LCE audits to address the expressed needs of auditors in a number of jurisdictions and to reduce the risk of fragmentation resulting from different jurisdictions developing their own solutions. CPA Australia represents the diverse interests of more than 168,000 members working in over a 100 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

Whilst we are not sure that it will be mandated in our primary market, being Australia, at least initially, we think that a standard being available for voluntary use would be worthwhile. A follow-up post-implementation review will be invaluable to determining amendments that may be needed and whether the authority has been appropriately defined.

Our key recommendations are:

**1. Identify the LCE standard as an International Standard on Auditing (ISA)**

Rather than the ISA for LCE standard being separate from the ISAs, we suggest that it sits within the suite of ISAs. This would mean that the auditor's report would not need to specify that the audit had been conducted in accordance with the LCE standard alone, instead it could reference the ISAs. As the audit outcome is intended to be the same, this would reduce any user perceptions that an LCE audit is of a lesser standard than an audit under the ISAs.

**2. Allow reference to the ISAs during the audit as necessary**

If increased complexity is encountered, auditors should not be prevented from referring to the ISAs. By allowing the auditors discretion in elevating their procedures to consideration of the ISAs, it would ensure that increasing complexity is seamlessly addressed and renegotiation of the engagement is not required in these circumstances.

**3. Apply formatting and numbering of paragraphs to align with the ISAs**

To provide consistency, enable easy referencing and understandability of the LCE standard, we think it is unnecessary to apply a different format and numbering system. As the ISAs and LCE standard have equal status and equivalence, there is no need to differentiate them in this way.

**4. Reconsider the location and approach to Essential Explanatory Material (EEM)** We consider that EEM should either be incorporated into the introductory material in the scope and objectives paragraph or identified as application material, depending on the purpose of that material. Creating a new category of guidance is unnecessary and its status is likely to cause confusion.

**5. Explore digital and diagrammatic solutions to navigating the ISAs**

One of the core issues which the LCE standard seeks to address is easy navigation of the ISAs. This aspect could be resolved with digital tools to move within and between standards, as well as diagrammatic or other presentation tools to depict the flow of the audit and the relevance of each standard.

## 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 support a global solution for addressing the challenges in the scalability of increasingly complex auditing standards, which are encountered by auditors of less complex entities (LCEs). The development of a standard for LCEs is an appropriate response to the risk of increasing fragmentation which arises from national standard-setters developing their own standards to meet this need. The agile approach of the IAASB is welcomed in getting the standard drafted and issued in a shorter timeframe than has occurred historically.

Although we support the IAASB in acting on stakeholders' calls for a standard to meet the needs of auditors of LCEs, we note that it may not be suitable for adoption as a mandatory standard for audits of LCEs in all jurisdictions. The proposed standard may nevertheless be useful as a voluntary standard in such jurisdictions. Ultimately it will be up to each national standard-setter to determine whether it will be issued in their jurisdiction, but this need not preclude those jurisdictions, who will find it useful, having access to such a standard.

We also consider that it would be possible for the standard to be issued as guidance with minimal amendments. Such amendments could quote from and link to the related requirements in the ISAs and where appropriate provide the simplified interpretation of the requirements for LCEs. A post-implementation review of this LCE standard will be important to evaluate whether it has met stakeholder needs. Any shortcomings identified through implementation can then be addressed to ensure it is fit for purpose.

A key motivation for developing the LCE standard is essentially to make the long and wordy ISAs more accessible to auditors of LCEs and to enable easier identification of the relevant requirements for such audits. We suggest that a digital tool may be more effective, where it works in conjunction with the standard to enable easy navigation of the ISAs and identify relevant requirements and interlinked standards, requirements and application material. The digital tool could build on the [IAASB e-Handbook](#). Consequently, we recommend that an alternative solution to address the challenges of the complexity and navigation of the ISAs needs to be pursued in parallel with the release of the LCE standard. Whilst the CUSP project is seeking to simplify the wording used in drafting standards, it does not tackle the need for more effective navigation which could be addressed with digital, diagrammatic or other presentation tools.

While we support the introduction of the proposed LCE standard, we question the practicality of its standalone nature for several reasons:

- the risk of divergence in approach from the ISAs over time as auditors of LCEs become unfamiliar with the ISAs,
- it prevents auditors using the material in the ISAs as guidance in conducting an LCE audit, which could create challenges given that the LCE guidance in the form of EEM is limited, and
- the risk of creating a users' perception that the LCE audit is of lesser quality, as the ISAs are not all applied.

Below, we summarise potential benefits and challenges of the LCE standard which we have identified in consultation with our key stakeholders. We do not consider on balance that any of these factors should prevent this standard being issued, as it would be beneficial to publish the standard at least

initially for voluntary application to test out its usability. The extent to which these benefits and challenges are realised can be evaluated in a post-implementation review.

**Perceived benefits of a stand-alone LCE standard:**

**1. Length:**

- Having all of the core requirements contained in one standard provides a more holistic perspective. This may facilitate increased audit efficiency as justification for not applying irrelevant requirements does not need to be documented. More precisely, the relatively short length of the standard makes it more user-friendly and easier to interpret.
- The requirements of the standard reflect the core content of the ISAs but is presented in a condensed form which reflects the flow of an audit engagement.

**2. Practicability:**

- The LCE standard is intended to still require the same amount of audit effort to obtain reasonable assurance. Therefore, it is unlikely to reduce the auditor's work and audit fees, but should make it easier for auditors to identify the requirements to be met. This would be advantageous especially to those who perform audits as just one of a number of service offerings or those who have limited resources to develop their own methodologies, such as small practices or sole practitioners.
- For small and mid-tier firms or individual auditors for whom all, or at least the majority, of their clients are LCEs the standard is likely to enable greater efficiencies in their audits as they are guided by a shorter, more targeted LCE standard.

**3. Audit quality:**

- By tailoring the requirements to better direct the LCE auditor's focus, the standard has the opportunity to enhance audit quality as it reduces the volume of requirements and application material that the full suite of standards presents. This could result in a reduction in relevant requirements being overlooked in audits of LCEs and better focus the audit effort.

**Perceived challenges of a stand-alone LCE Standard:**

**1. Segmentation:**

- There is a significant risk that the LCE standard will create two levels of audit, with the LCE audits seen as less robust than audits under the ISAs. This perception may be reinforced over time, as auditors of LCEs become less familiar with the ISAs and a divergence in approach may arise between an audit under the LCE standard and under the ISAs.
- In turn the LCE standard may lead to a market segmentation amongst firms or auditors, whereby firms or teams within firms exclusively or primarily auditing LCEs may face challenges in attracting and retaining staff. We have heard of concerns about auditors of LCEs being unable to move readily to more complex audits if they have worked exclusively with the LCE standard. This may be seen as career limiting for individuals and limiting flexibility for the audit profession. However, we do note that many auditors or firms already choose to specialise in LCE audits, such as associations, small to medium charities or trust accounts.

**2. Prohibition on "top-up" from ISA requirements:**

- Whilst the IAASB states that there is "no intended need to directly reference back to the requirements or application material in the ISAs in its application", we do not see the need to prohibit use of the ISA requirements or application material to "top-up" the LCE

requirements. Whether auditors apply the full suite of ISAs or the single LCE standard, both are intended to obtain reasonable assurance. In fact, referring to the ISAs may help to determine whether the requirements for more complex entities are required.

- Whilst the ISAs are the “gold standard” for auditing of financial statements, the LCE standard is effectively a summarised or simplified version and so may be perceived as resulting in a lower standard of audit.

### **3. Users’ understanding of LCE audits:**

- Users of auditor’s reports on LCEs are likely to struggle to understand the implications of the LCE standard. As much as they do not always understand the difference between an audit and a review, they are unlikely to grasp the intent and nature of the LCE audit. There is a risk that they may perceive a LCE audit as providing a lower level of assurance than an audit under the ISAs.
- We are concerned that entities may have a misconception about the auditor having a reduced workload when applying the LCE standard instead of the full suite of ISAs. Consequently, entities may expect auditors to charge less or be reluctant to agree for the LCE standard to be applied in their audit.

### **4. Transitioning:**

- By having a separate standard for LCE audits, it creates difficulties in transitioning to the ISAs if the client becomes more complex and vice versa. Transitioning is likely to create additional work to ensure the ISA requirements have been adequately met, documentation is revised and the engagement letter is updated, especially when it occurs part way through an audit. If the transition occurs between periods, the implications for the auditor’s report when comparatives have been audited under a different standard and inefficiencies of being unable to leverage the prior period’s audit file, will create additional work effort. Whenever it occurs, additional documentation will be needed to address this transition, unless the LCE standard is integrated into the suite of ISAs.
- In firms where many different types of audits are undertaken, both LCEs and more complex audits, including listed entities and public interest entities, or firms which have well established methodologies based on the ISAs, the LCE standard would not necessarily create efficiencies. In fact, the LCE standard is likely to be an added complication in these circumstances as a new methodology would be needed for LCEs.

### **5. Scalability:**

- Whilst there is general acknowledgement that the ISAs are scalable, auditors of LCEs face challenges in managing the volume of requirements and in determining their relevance to the engagement. The LCE standard may not be the most effective means of achieving improved scalability. A more contemporary means of addressing this challenge would be developing a digital tool (see our comment on Question 1(a)) to navigate the standards or a standard LCE methodology/ies from which firms could develop their own methodologies.

### **6. Jurisdictional differences:**

- Jurisdictions in which auditing standards are mandated by legislation, such as Australia and New Zealand, are likely to have difficulty in mandating the LCE standard in its current form, due to the structure of the standard and the extensive judgement needed in determining which entities are LCEs. The use of essential explanatory material (EEM) in shaded boxes without numbered paragraphs, for example, may create difficulties in identifying the

requirements which can be enforced and the non-mandatory guidance material which need not be enforced.

(b) The title of the proposed standard.

**Response:**

As explained in our answer to question 10, we consider that the LCE standard should be titled as an auditing standard (ISA) as audits conducted using the LCE standard are equivalent to those conducted under the ISAs. LCE and ISA audits are all audits of financial statements and do not represent different services, so there is no need for different standards to be referenced. The basis for opinion in the auditor's report needs to be able to state "We conducted our audit in accordance with International Standards on Auditing (ISAs)" or national equivalents.

Whether or not the LCE standard is an ISA, we suggest that a numbering system should still be applied. This would allow for better referencing and grouping of any additional related standards should they be required in the future. If the LCE standard is placed in the suite of ISAs then it could use the 900 series.

In addition, we recommend the numbering of and clearer titles for the Supplemental Guidance. The titles need to be numbered, more succinct and could be appendices, attachments or guidance referenced more clearly to the LCE standard. This would be easier if the LCE standard was itself numbered.

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

**Response:**

We suggest that all paragraphs in the LCE Standard should be numbered, including the EEM, so that they can be readily referenced in other publications and by national standard-setters. We further suggest that the numbering system is aligned with the existing standards, which we note use sequential whole numbers for each paragraph, rather than applying a different numbering convention. This would be helpful for some jurisdictions, such as Australia, where decimal points are used for any additional Australian specific paragraphs inserted to keep the remaining paragraph numbering aligned with the IAASB standards. We also suggest that consistent prefixes be used to align with the other IAASB standards. The LCE Standard has used the prefix A to mean authority while for other standards it is used to mean application material. Whereas the EEM has no alpha-numeric numbering, which becomes problematic if the formatting of EEM in shaded boxes cannot be used in some jurisdictions, where for example standards are legislative instruments. These EEM paragraphs need a prefix to indicate they are not requirements, whether that be "A", if EEM is seen as equivalent to application material, or perhaps a new prefix E. As stated in earlier comments, if the LCE is presented using a digital tool, the EEM could be integrated in the same way as the Application Material is presented in the ISAs (see IAASB e-Handbook).

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 support the conforming amendments to the IAASB Preface in the event that the Standard for LCEs is issued.

## 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:**

**Implementation:** The authority comprises prohibitions and qualitative characteristics, which we address separately below. Overall, stakeholders have called for the authority to provide “bright lines”, giving as much clarity as possible regarding for which entities’ audits the LCE standard is appropriate or permitted to be used.

The prohibitions on use of the standard for LCEs are clear and implementable. These provide “bright lines” which are clear criteria for applying the standard. The term “public interest characteristics” clearly identifies the entities for which the LCE standard is unsuitable, although that term would benefit from alignment with the outcome of the IESBA project on the definitions of listed entity and public interest entity in due course and by national standard-setters with relevant terminology used at the jurisdiction level. If the IAASB and IESBA have different views about the definitions of listed entity and public interest entity, it is imperative that the two boards reach a common outcome. If this is not possible, differences must be clearly articulated. We have heard justification from some stakeholders for the inclusion of less complex listed entities and group audits in the scope of the standard. We consider it would be helpful to include less complex group audits provided that the entities involved in the group meet certain criteria that could include size, complexity, and the reporting structure of those entities. If less complex group audits are included, additional guidance outlining scenarios involving less complex group audits, may be required to support auditors. However, we note that less complex groups could easily become more complex as their circumstances change. Auditors of listed entities and groups would typically be of a sufficient scale or well enough resourced to be able to scale the ISAs as needed. There are many less complex audits of micro entities, associations, small charities and trust accounts for which this standard is clearly needed, most of which are unlikely to become more complex over time.

The qualitative characteristics in the authority require significant judgement to determine when to apply the LCE standard, which is likely to create different interpretations and inconsistency across and within jurisdictions. This creates a risk for auditors that regulators could reach a different conclusion regarding when the LCE standard can be applied. The need for supplemental guidance indicates, arguably, an unnecessary level of nuance in the determination of what fits within the scope of an LCE. The clearer the criteria in the authority the more consistently the LCE standard will be applied. Nevertheless, these qualitative characteristics do allow for jurisdictions to develop their own requirements regarding the nature of entities which can apply the LCE standard in their jurisdiction. Whilst we consider that the description of the qualitative characteristics is very lengthy in the LCE standard, especially when combined with the supplemental guidance, we have nevertheless not identified any specific items to be amended. We consider that these characteristics can be considered in the post-implementation review and refined if needed. Whether the concept of “if in doubt you are out” is an appropriate test can also be reviewed as part of a post-implementation review.

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

**Response:**

While the IAASB makes sufficiently clear that the LCE standard is not simply a summary of the ISAs, which omits certain requirements, entities, users and other stakeholders may perceive that an LCE audit is a “lesser” product than an audit under the ISAs. If users consider LCE audits to be of a lower quality or reliability this may impact negatively on the LCE itself. In turn, LCEs may expect a LCE audit to be lower cost as a result of less audit effort being required. Thus, we recommend that the IAASB undertakes initiatives to inform the market and its stakeholders that an audit under the LCE standard provides the same level of confidence and is intended to reflect equivalent quality to an audit under the ISAs.

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

**Response:**

We have not identified any areas of the Authority that are not clear, although there is a lot of detail and some repetition of the standard in the supplemental guidance which could perhaps be consolidated.

(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 appropriately informs 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?

**Response:**

The role of national regulators and standard-setters in tailoring the Authority to their jurisdiction is clear and appropriate.

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:**

We support the specific prohibitions and qualitative characteristics limiting the use of the standard. We reiterate that a post-implementation review can consider whether changes are needed based on the experiences of implementation.

5. Regarding the Authority Supplemental Guide:

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

**Response:**

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

**Response:**

The Supplemental Guidance for the Authority is very comprehensive and we have not identified anything to be added. However, it is very long and detailed, repeating some of the material in the LCE standard and so consideration could be given to consolidating the material. Alternatively, this could be done as part of the post-implementation review.

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:**

Again, we consider that the post-implementation review will be the test as to whether the Authority has identified the appropriate criteria.

*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:**

Whilst we broadly agree with the way in which ISA requirements have been incorporated into the LCE standard, we notice that many requirements in the ISAs have been adopted word by word, whereas others have been incorporated in amended form. Of course other requirements have been deliberately excluded as not being relevant to LCE audits. However, this somewhat inconsistent approach to incorporating the ISA requirements may have unintended consequences in the future. For example, this approach is likely to complicate the determination of conforming amendments when ISAs are revised.

A digital tool could be used to navigate the ISAs along with a mapping of the standards or specific requirements to the flow of the audit, which may more seamlessly achieve the objective of the LCE standard. We have not identified any specific gaps in the requirements included in the LCE standard.

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

**Response:**

We consider that the objectives will be helpful in understanding the overall purpose of each part of the standard but note that there is some overlap between the content of the objectives, scope and some of the EEM material, as discussed below. Some of this material could be consolidated to simplify the parts.

(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 proposed approach of incorporating the requirements of professional scepticism and professional judgement, relevant ethical requirements and quality management. See also our comment to a).

(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. Content: We consider that the general introductory EEM could be incorporated into the content and scope sections of each part. The EEM would then be restricted to material which is relevant to the paragraph above it and would flow more logically from that material. Some of the EEM content duplicates the sections on content and scope or the objectives paragraphs and could be consolidated. It is somewhat confusing to have so many different types of sections in the standard. For example, the EEM included under paragraph 4.2.1 could be incorporated into the scope box of Part 4.
- ii. Whilst we appreciate that the EEM is more restricted than the application material in the ISAs, we support limiting the volume of EEM. Providing links or references to relevant material in the ISAs may help to avoid the need for further guidance material.
- iii. We consider that the location and presentation of the EEM can be confusing. We suggest that it would be clearer to place it either separately as application material in the same way as other standards, insert as footnotes or link it electronically in a digital tool (see IAASB e-Handbook). At a minimum it requires an alpha-numeric identifier, so it can be referenced and can be clearly identified as not being a requirement. The EEM is quite visually dominating and could be taken to be of greater significance than the requirements. It is somewhat problematic that the explanatory material is not part of the standard when the EEM shaded boxes are sitting in between the requirements and appear to be integral to the standard. An alternative approach would be to separate the EEM from the requirements by moving it to application material, consistent with the format of the ISAs, or provide links to the EEM in the relevant requirements using a digital tool. The clarity project from over a decade ago, separated all of the application material from the requirements moving that material to the back section of the ISAs, whereas the approach in the LCE standard is the reverse by positioning the EEM alongside the requirements as it is “deemed necessary and informative for the proper understanding of the requirement.” We consider that much of the EEM is

similar to application material and it would be more aligned to the other IAASB standards to use the same term and approach to its presentation. This could mean that all application material should be moved back below the requirements if it aids understanding.

#### *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 drafting principles are sound. In particular, we support the requirements following the flow of audit engagements and being drafted in a more understandable and straightforward way. We question whether the exercise conducted in assessing the wording of current ISA requirements with this lens for the LCE standard, could be utilised for revisions to the ISAs. Adoption of the LCE wording in the ISAs if applicable to complex entities, would be a way of minimising divergent wording and would meet some of the objectives of the CUSP project. It would also serve to allay negative perception that the LCE audits are of a lesser standard than an audit under the ISAs.

With respect to the overall design and structure, we consider the numbering could be confusing for users. It could be simplified. One of the drafting principles to exclude material that is lengthy, educational or background in nature seems at odds with the EEM, which in many cases is exactly that.

#### *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:** No comments

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) **Presentation/content/completeness:** We consider that specific reference to the LCE standard in the auditor's report should not be necessary as the audit outcome should be the same whether the ISAs were used or the LCE standard. It may create a concern for users that the LCE audit is different or of a lesser quality than an audit under the ISAs. As the audit product should be exactly the same whether the ISAs or LCE standard are applied, it will create unnecessary confusion for users as to whether the auditors' reports are comparable. If entities have a perception that an audit under the ISAs is preferable, particularly as there will be no anticipated costs saving, they may request the LCE standard not be used. To enable generic referencing of the ISAs, it may be necessary for the LCE standard to be titled as an auditing

standard so that the auditor's report can continue to state "We conducted our audit in accordance with International Standards on Auditing (ISAs)" or national equivalents.

- b) **Specified format:** We do not support the inclusion of the auditor's report as a requirement, but instead recommend that it be included as an illustration in an appendix, in the same way as ISA 700. The reason for this view is that there will almost always be exceptions to the base auditor's report format, as a result of a compliance framework being applicable rather than a fair presentation framework, references needed to legislative or regulatory requirements or additional opinions being required on compliance, controls or other subject matters.
- c) **Supplemental Guide:** We are supportive of the illustrative examples of modified auditor's reports and additional paragraphs. However we question whether it would be easier to access these examples in an appendix to the LCE Standard rather than in a separate document. As most users will access the standard electronically, the total number of pages in the document are not as relevant as when standards are accessed in paper form. The effectiveness of electronic navigation is more important. Access is largely overcome through the IAASB's e-handbook, including links from the requirements to illustrative examples.

11. With regard to the Reporting Supplemental Guide:

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

**Response:**

The material in the Supplementary guidance is helpful but as stated in 10 above would be better placed as an appendix to the LCE standard.

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

**Response:**

No further matters identified.

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:**

No improvements identified.

#### *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:**

Whilst we support the concept of 'if in doubt, you're out' as a pragmatic approach for making the determination whether the LCE standard is appropriate for an audit engagement for new and recurring engagements, we question the practicality of applying that approach once the audit has commenced. We caution that transitioning to the ISAs during an audit may lead to additional complexity and confusion for both the auditor and their clients. If auditors need to transition to

applying the ISAs during an audit, then they may need to redo audit procedures, or at a minimum, amend their documentation to ensure that it addresses all of the ISAs. This may be impractical or unrealistic given time and resourcing constraints. It may also create conflict with the client when the engagement letter needs to be reissued, if the client questions the auditors initial judgement regarding the nature of the entity. A checklist of additional procedures needed if a transition is required should be considered.

We are of the view that it would be preferable to allow auditors to directly reference back to the ISAs if complexity arises during the audit, so that they can use ISA requirements for matters or transactions that are not included in the proposed standard. Completing the steps in para. 139 of the proposed standard is very onerous and would discourage auditors from acknowledging that increased complexity has arisen during the audit. Instead, we suggest that “topping-up” using the ISAs be permitted during the audit if complexity arises. Nevertheless, for the following period after a “top-up” from the ISAs was necessary, the presumption could be that the ISAs be applied unless the complexity encountered was a documented one-off.

The challenges which this proposed approach may create are demonstrated by the rapidly changing business models and operations entities are facing due to the effects of the pandemic. According to our members, more often in the current environment auditors suddenly come across more complex matters than expected. Small to medium practices which often undertake LCE audits, may not have the resources required to change the approach halfway through the audit and may therefore decide to stay within the LCE standard. This will cause unnecessary tensions.

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

**Response:**

As we are suggesting a different approach to allow “topping-up” of requirements and application material from the ISAs, there would be an increased need for materials to explain when the complexity was pervasive and the engagement needed to move entirely to the ISAs.

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

**Response:**

We support the proposed approach of making amendments to the LCE standard to reflect revisions to the ISAs as they occur, in the same way that conforming amendments are made currently. We also support the alignment of the effective date for amendments to the LCE standard with that of the relevant ISA amendments, which would be at least 18 months. Whilst constant changes to the standards is difficult for SMPs to manage, we consider that it is more important that the LCE standard aligns with the ISAs so that methodologies and training are consistent. Whilst we are concerned that the LCE standard will become a standard that will have to be continuously updated, as most changes to the ISA requirements will require changes to the LCE standard, the impacts could be overcome by identifying the updated wording and the implementation date against the relevant paragraphs within the standard, so the changes are immediately identifiable.

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

**Response:**

We support allowing early adoption of any future revisions to the LCE standard.

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

**Response:**

We support excluding engagements under the ISA-800 series at this stage. The LCE standard will not be as relevant to all of these engagements as some are much narrower scope than an audit of a set of financial statements. It may be more appropriate to develop additional standards in due course to address these different types of engagements. Seeking to address too many different circumstances is likely to undermine the usefulness of the LCE standard.

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:**

It is unlikely that in Australia the LCE standard would be mandated for statutory audits in the short term at least. Mandatory standards are statutory instruments in Australia and need to meet the legislative drafting requirements, as well as satisfy the regulators that LCE audits would be as robust as ISA audits. Nevertheless, the standard may be useful for voluntary audits or audits conducted where only a review is required by legislation. If successfully applied in those circumstances, the Government may feel comfortable for the LCE standard to be mandated for certain audits in the future.

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

**Response:**

Feedback from stakeholders indicates mixed reactions regarding whether the LCE standard would meet their needs. Some auditors of LCEs are keen for this single standard to help them navigate the relevant auditing requirements, whilst other mid-tier to large firms would prefer the LCE standard not to be mandated as they prefer to have one methodology based on the ISAs and to use staff across all types of entities in order to manage resources and workflow. Audited entities need to be confident that an LCE audit would remain of equivalent quality and reliability as an audit under the ISAs. There is an indication that if there are no cost savings, entities are more likely to request an audit under the ISAs, due to perceptions that the LCE audit may be a compromise or that its suitability may be challenged by the regulators subsequently. Users of financial statements who rely on the effectiveness of the audit to provide confidence and trust in financial statements, may perceive the LCE audit report as "lower-level audit" given that it appears to be shorter, follows prescribed wording etc. (see answers to questions 1(a) and 3(b)).

- (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 specific challenges for implementation identified.

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:**

We have not identified any other matters for the IAASB's consideration.

*Section 4G - Approach to Consultation and Finalization*

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

**Response:**

Support materials which bring to life the requirements in the standard such as videos or webinars and visual representations of the flow of an LCE engagement and the core requirements in each part of the standard would be most useful. These types of engaging materials are recommended over lengthy written explanations, as they provide higher level concepts in a way as to encourage engagement with the more detailed materials. Some stakeholders have suggested a generic methodology would be of assistance for SMPs as a basis for developing their own methodology specific to their jurisdiction and circumstances.

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:**

We are aware that less complex entities including SMEs, charities and NFPs form a significant proportion of several jurisdictions' economies (such as the European Union). Therefore, we support the translations into relevant languages. We are not aware of specific translation issues.

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:**

Regarding the effective date, we suggest allowing for at least 24 months after the approval of a final standard. The suggested time frame would give auditors sufficient time to familiarise themselves with the new standards while recovering from disruptions (such as staff shortages) caused by the pandemic. Further, the suggested timeframe would allow firms to prepare or amend their methodologies and train their staff accordingly. As early adoption is intended to be allowed, this would not prevent jurisdictions, firms or individual auditors moving to implement more quickly.

## 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 support the inclusion of group audits under the condition that (1) all entities belonging to the group are less complex, and (2) that the less complex group audit does not involve component auditors. Whilst overall we suggest limiting the LCE standard to the most simple entities, many LCEs group structures do not reflect their operational simplicity. The inclusion of less complex group audits should be a matter to reconsider as part of the post-implementation review.

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:

Not applicable.

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:

If group audits were permitted under the LCE standard, then we recommend use of proxies for complexity as described in Option 1. The qualitative characteristics should already have been considered in determining that the entities in the group are LCEs and should not need to be reconsidered in the context of the group itself.

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:

Not applicable.

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:

We recommend inclusion of requirements for group audits in a separate part so those requirements can more easily be disregarded if it is not a group audit.