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Indonesia, January 28th, 2022

To: International Auditing and Assurance Standards Board

Subject: **Response on Exposure Draft of proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities Management (ED-ISA for LCE)**

We appreciate the opportunity to comment on the Exposure Draft of proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities Management (ED-ISA for LCE).

Audits of LCEs represent a majority of audits conducted globally and are important to the stakeholders of those entities as well as to the confidence in economies more broadly. As the ISAs have evolved to address both the changing business environment and calls for greater specificity to address regulatory inspection findings, there has been a growing concern among many stakeholder groups that the associated increase in complexity and specificity in the standards is making them more difficult to apply, and is driving work effort, documentation and communication requirements that are perceived as excessive in less complex circumstances. Some stakeholders are beginning to question the ongoing appropriateness and relevance of the ISAs for audits of LCEs.

We support the IAASB in taking a constructive action. We trust that maintaining global consensus and support for a consistent set of auditing standards applied across jurisdictions is important. At the same time, we also believe it is essential that any standards issued will facilitate a high-quality audit, and will not diminish the trust associated with the concept of audit in the eyes of stakeholders. Accordingly, in conjunction with the purpose of the consultation over ED-ISA for LCE, we have prepared our comments for your considerations.

We provide further context to the above points in our responses to the detailed questions posed in the Appendix to this letter. We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact us at info@iapi.or.id.

Thank you

Yours faithfully


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Appendix I

Name of Respondent: Institut Akuntan Publik Indonesia (IAPI)
Organization (where relevant): Indonesian Institute of Certified Public Accountant
Country/Region/Jurisdiction: Indonesia

General Comments on Proposed ISA for LCE

Response: No further comment

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: Agree

- (b) The title of the proposed standard.

Response: Agree

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

Response: None noted

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: 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: Yes

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

Response:

Significant judgement will rest with the firms and engagement teams in interpreting whether entities fall within categories of entities meeting the definition of LCE. There will be a potential risk of inconsistency in the judgement made.

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

Response: Group audits have specifically been excluded from the scope of the proposed standard. However, we observed that many stakeholders have been quite vocal in expressing their desires for group audits to be included, citing the fact that the exclusion of Group audits would significantly limit the use of the standard.

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

Response: Yes

(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: Yes

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:

Some stakeholders in our jurisdiction have argued that a complete prohibition on listed entities ignores the fact that there are many “simple (not complex)” listed entities. However, we agreed that, regardless of complexity, the risk of allowing judgement to be applied to listed entities with public interest exposure is significant.

Also refer to point 22 and 24 for additional comments.

5. Regarding the Authority Supplemental Guide:

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

Response: Yes

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

Response: See comment on point 3

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

A related risk arising from the judgement framework is whether this may encourage “inappropriate competition” i.e., entities actively seeking an audit firm that is willing to designate the entity as less-complex simply for purposes of being able to apply the ISA for LCE in order to reduce audit costs. That would clearly not be in the interests of achieving and maintaining audit quality.

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: No further comment

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

Response: No further comment

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

Response: No further comment

- (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: There is a risk that the lack of guidance for auditors may introduce differing interpretations as to what is required, which may potentially be detrimental to the overall audit quality. Currently in ISAs, application material has been helpful to support the appropriate application of requirements in the standards. Therefore, we proposed IAASB to consider issuing additional guidance to supplement these EEMs.

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: No further comment

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.

Para A9 of the ED-ISA for LCE outlines one of the qualitative characteristics to consider being:

“Transactions are complex or the information system and related processes relevant to the entity’s financial statements are complex such that the data collection and processing involves complex accounting or calculations”.

Additional clarification would be helpful to assist the practitioners in making the appropriate conclusion, e.g. Does the use of level 3 assumptions as key estimates in a transaction cause the transaction to be considered complex? (The use of fair value accounting is pervasive in the financial statements that this might be a common issue of which a more specific guidance would be useful to the practitioners).

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: Yes

11. With regard to the Reporting Supplemental Guide:

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

Response: Yes

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

Response: No

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: Section 6.3.14 could be improved to make this standard gain a wider acceptance among the practitioners. Many audits of LCE were done primarily based on substantive approach and it is common for the LCE to have situations such as: a lack of segregation of duties, ineffective IT general controls, etc. It would be helpful to provide more guidance to the practitioners in terms of how the ED-ISA for LCE would assist them in reducing the cost in doing the audit whilst still providing the same level of assurance in such commonly found situation.

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: Section 136 – 139 prohibits the use of ED-ISA for LCE when certain circumstances arise during the audit, e.g., complex estimates. As there is no ability to do top-up procedures by referring to the ISA, the auditors will have to abandon the use of ED-ISA for LCE mid-way during the audit and refer back to the use of ISA. This would create additional time and costs to adjust the overall audit process including the audit documentation in order to comply with ISA. There might be challenges to recoup any costs to switch from ED-ISA for LCE to ISA when, e.g., a complex transaction is executed post conclusion made to use ED-ISA for LCE. This situation might deter and prevent wider use of the ED-ISA for LCE among the practitioners for fear of incurring more time as a result of a change from the use of ED-ISA for LCE to ISA during the year, especially if there is no significant efficiency arising from the use of the ED-ISA for LCE.

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

Response: Guidance in relation to above mentioned concern.

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

Response: The proposed approach appears sensible, enabling more timely action when warranted by the circumstances.

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

Response: Yes

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

Response: No. Will be too complicated.

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: The use of the ED-ISA for LCE will be driven by the acceptability of the standard by the local regulatory bodies and other stakeholders such as banks who will use audited FS for their credit analysis, and the perception of the practitioners of the cost efficiency arising from the use of the ED-ISA for LCE.

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

Response:

Based on the survey we have conducted in our territory, the auditors provide positive response on this exposure draft, and have expectations that this draft can address the challenge of the ISAs' complexities. However, for the other users, including auditees, banks and other stakeholders, we still need to gather more feedback from them..

(c) Whether there are aspects of the proposed standard that may create challenges for implementation.

Response: Yes. Some of the aspects include:

- Perception of "lower assurance" audits / "two-tier" assurance
- Limited application guidance might lead to inconsistent work/procedures performed by the practitioners
- It has deviated from ISA requirements in some respects such that it calls into question the work effort needed to achieve what is intended to be the same outcome

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: Refer to the other comments in this document

Section 4G - Approach to Consultation and Finalization

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

Response: Suggest to provide an implementation guidance to supplement the EEM in order to reduce the risk of the inconsistencies of the work/procedures performed by the Auditor

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 do not see any potential translation issues in our jurisdiction as we have a robust process in place in translating ISA to our local standards.

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: No comment

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 agree with the IAASB's decision and rationale for excluding group audits which have a complex characteristic in nature. We understand that group audits generally include an inherent level of complexity. However, there are also instances where the group is relatively straight forward and the audit does not involve complex matters which are consistent with the overall purpose and determination of the appropriateness to use the ISA for LCE for that audit. We therefore encourage IAASB to reconsider not totally excluding the group audit from the scope. Instead, we suggest that IAASB still includes group audit in the scope as long as it meets the qualitative characteristic of audits that meet the less complex criteria.

If group audits continue to be excluded from the scope of the ISA for LCE, we believe it is necessary for the IAASB to address the question of the auditing standard(s) that need to be applied with respect to components of the group. There will be practical implications if the statutory audit of a component is permitted to use the ISA for LCE while the group engagement team specifically requests the component auditor to use ISAs in the audit works for group consolidation purposes. This is due to a requirement to use the ISAs for the group audit opinion.

Given the different users of the financial statements, it might be warranted for the auditors of the standalone subsidiary for the purpose of meeting local statutory requirements to have the ability to opt for the use of ED-ISA for LCE, taking a different approach as required by the Group team.

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: See response in point 22

- (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: At current stage, we do not have information and data to provide this analysis.

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

Response: There were instances where the Group is relatively straight forward and the audit does not involve complex matters, example is when the Group only consists of a limited number of non-public interest subsidiaries, and the circumstances relating to the nature and extent of the entity's business activities, operations and related transactions/events are relatively straight forward.

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: Option (b) is more consistent with the basic premise of scoping for ED-ISA for LCE, i.e., based on the qualitative characteristics. The ED-ISA for LCE is a principles-based standard and accordingly, practitioners should be able to use their judgment to determine the applicability of ED-ISA for LCE for a particular group audit based on the characteristics of that group.

The IAASB should consider adding application guidance to assist the practitioners in making such professional judgment.

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:

Has been covered in point 22 and 23. In addition to that, several considerations that could be taken:

- Consolidation process is relatively straight forward, no complex consolidation or sub-consolidation process involving significant number of subsidiaries
- Relatively limited number of multi-location or divergent operations
- Less complex IT environment and IT systems
- Relatively simple structure and relationship between shareholders and/or related parties

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:

Option (a) - Presenting all requirements pertaining to group audits in a separate Part.

The ED-ISA for LCE is meant to be a stand-alone auditing standard. The flow of the standard would make it easier to read and understand when all the necessary requirements for a group audit are included in a separate Part of ED-ISA for LCE.