

## 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**

**Name of Respondent:**

Eleni Ashioti

**Organization (*where relevant*):**

Institute of Certified Public Accountants of  
Cyprus

**Country/Region/Jurisdiction:**

Cyprus

## General Comments on Proposed ISA for LCE

**Response:** We welcome the initiative of the IAASB to address the concerns pertaining to the complexity and lack of scalability that currently exists in ISAs and the associated challenges it imposes on the particular segment of the market i.e., less complex entities (LCE) as well as their auditors. To this end, we believe it is paramount that such an LCE standard is devised in a manner that will not end up being too similar, in terms of work effort, to the extant framework but rather be sufficiently radical to ensure it will address the expectations of the stakeholders for significant efficiencies in the nature and extent of the procedures performed and the pertinent documentation. In a nutshell, we believe that the key principles underpinning the LCE standard should be: (i) its scope of application determined via clearly defined thresholds and criteria (quantitative and qualitative) that are characteristic to the nature of the targeted market segment of LCEs and (ii) preserves audit quality and safeguards stakeholders' trust in the audit process. We accordingly encourage the IAASB to critically evaluate the input received from the various stakeholders and effect the warranted revisions to address the above considerations.

## 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 most favourable approach would be to make the ISAs proportionate enough, clear, and understandable to cover audits of LCEs and this is something that we envisage for the future. In this way there will be no questions as to whether a separate standard might lead to fragmentation of the audit market. However, we understand the difficulty and time that this exercise would require, therefore we tend to agree with the standalone nature of the proposed standard at this stage, provided that it takes due consideration of the matters delineated in this document and does not trigger unwarranted adverse consequences.

- (b) The title of the proposed standard.

**Response:** We agree with the title as proposed.

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

**Response:** No other matters.

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.

### *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:** The IAASB's approach, in that the legislative or regulatory authorities or relevant local bodies with standard setting authority at each jurisdiction will be responsible for the implementation

of this standard, is reasonable. Nevertheless, we highlight that the subjectivity and extent of judgement in determining 'complexity' and applicability of the standard could potentially lead to considerable inconsistencies in its practical application by auditors both within and across jurisdictions.

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

Response: One important unintended consequence is potentially the user's and preparer's perception that auditors will be doing less work, impeding the audit quality. The standard should be promoted in a way that it is understandable that the quality of audit work is not compromised and that the work to be carried out is not less but more relevant – with the use of the ISA for LCE, practitioners can focus on risky areas - they are not performing less work but the right work for the particular entities. Additionally, in the absence of clearly defined criteria/thresholds to establish what constitutes an LCE there is a likely risk that audit quality could be compromised if the audit effort, on the basis of the standard, is not commensurate to the true profile and characteristics of the relevant entity.

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

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

Response: Please refer to responses in the rest of the document.

(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: Please refer to our response in question 4.

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 agree with the approach taken in relation to defining specific classes of entities for which the use of the standard is prohibited. These should be aligned with the IESBA'S Exposure Draft Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code.

We are concerned about the qualitative nature of the requirements rather than having quantitative requirements as a starting point as it leaves a lot of room for auditor's judgement that will likely lead to widely varying interpretations, and challenge by regulators. We understand that it would have been difficult for the IAASB to develop quantitative characteristics as this standard is designed to be applied globally. However, we encourage the IAASB to introduce a three-step approach:

1. Prohibit the use of the standard for listed entities, or entities which meet one of the criteria specified in paragraph A.7 point (c).
2. Assess the entity under quantitative criteria, i.e., Limit the use of the standard to small companies, and this is to be defined at a jurisdictional level.

3. Assess the company's complexity, i.e. In cases whereby a small company is a complex company then it would not be able to be audited under this standard. The entity's complexity is to be assessed under qualitative criteria by placing the focus on characteristics that are typical to an LCE and that would render applying the standard appropriate rather than delineating features of complexity that would render the application of the standard inappropriate.

If the above-mentioned process is not possible to be implemented, we encourage the IAASB to add one more paragraph making it clear that legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions are allowed to apply quantitative characteristics if they consider these to be more appropriate than applying the paragraphs in the ISA for LCE that refer to qualitative characteristics. We note that IAASB itself in pg.6 refers to the number of SMEs being more than 90% across the world implying (not intentionally perhaps) that SMEs will most likely be LCEs.

In addition, it is risky (at least from the very beginning) to leave it to the practitioners to decide whether a company is an LCE or not as it involves a lot of judgement. Practitioners also have the policies and procedures methodologies they follow. It could be the case that they are happy with the methodology already established for a company and switching to the ISA for LCE would seem more burdensome and costly (passing the cost on to SMEs) than using the ISAs.

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: We have not identified any other matters.

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 articulated the matters to be considered in our response to question 4.

#### *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: While we believe the approach adopted is reasonable there are likely to be some unwarranted repercussions, most notably due to the considerable ambiguity over the potential population of entities that will fall within the scope of the standard. Similarly, incorporating the majority of ISA requirements without any substantive simplification, will itself undermine the intent of achieving the desirable efficiencies in LCE audits, likely falling short of stakeholders' expectations.

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

Response: We agree with this approach.

- (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 this approach.

- (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: We agree with the approach set to EEM, yet we highlight the importance of EEMs in promoting understanding and consistency in application of the standard and accordingly would encourage the board to revisit the sufficiency and potentially expand further the EEM spectrum.

#### *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 specific comments in respect to this point.

#### *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: We acknowledge that the number of requirements that fall under the LCE standard has diminished in comparison to ISAs. Below we list a few areas where there could either be a need for more guidance to be included in this draft standard or areas where we would have expected even less requirements:

##### Request for fewer requirements

- ISA for LCE has been aligned with ISA 315 (Revised). We consider that certain areas could have been simplified in the ISA for LCE such as the identification and assessment of the risks of material misstatement and the need to perform tests of design of controls. For example, we would have expected fewer requirements than those mentioned in paragraph 6.3.14 – we consider point c to be of relevance to LCEs but not the rest of the points. In practice, the auditor of a small entity is usually not able to rely on controls and thus performs full substantive audit procedures.
- Limit documentation of the auditor’s professional judgement for not doing work in some circumstances.

##### Request for more guidance

- We would expect that the requirements in certain ISAs such as ISA 250, ISA 240, ISA 570 (Revised) would still need to be present for audits of LCEs.
  - ISA 320 provides more guidance than the ISA for LCE which is useful for the determination of the materiality and performance materiality. We suggest the IAASB to provide more direction to this respect including paragraphs from the Application and Other Explanatory Material of this ISA.
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: We agree with the requirements as set in paragraph 9. As it relates to the unmodified auditor's report, we suggest that this is included in the appendices as it is currently the case in ISAs. We encourage the IAASB to also provide illustrations of modified auditor's reports (qualified or adverse opinion).

11. With regard to the Reporting Supplemental Guide:

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

Response: It is useful – especially illustrations as the one provided in page 2.

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

Response: Part 9 covers all reporting standards of full ISAs.

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 further areas other than those 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: We have reservations when it comes to the transition to/from ISAs – there seem to be practical challenges associated with this. One of the reasons that the qualitative criteria proposed to determine whether an entity can use this standard or not are perhaps not the most appropriate determinant factor to start with is the fact that if a matter or circumstance can be found during the audit that exhibits complexity then there will need to be transition to the ISAs to this respect.

If a single complexity has been identified during the audit, the auditor should be able to make an exercise whether something would have changed in the audit cycle had she/he used the full ISAs. If not, then the standard should allow the auditor to continue the use of the ED-ISA for LCE without the need to transition to ISAs. To this respect, we propose that the IAASB develops guidance, e.g., consider the use of additional 'modules', in that if there is a single complex matter, this could be addressed within the ISA for LCE without the need for transitioning.

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

Response: Transitioning should be done in rare cases so perhaps the IAASB should not give emphasis on this by issuing support materials. Support materials can be provided for the first-time transition. Our earlier comments regarding the need to establish more clearly defined criteria to determine scope are important in minimising the transitioning instances.

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

Response: Yes. We agree with the IAASB's commitment to propose that amendments to ED-ISA for LCE will be made periodically when projects to revise ISAs are undertaken.

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

Response: We do not see any reason for not allowing early adoption.

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

Response: Yes, it could be included as a separate part.

17. In your view, would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion and for which the proposed standard has been developed? If not, why not. Please structure your comments to this question as follows:

- (a) Whether the proposed standard can, and will, be used in your jurisdiction.

Response: We support a global solution for less complex entities to be audited under a simplified, and more relevant, auditing standard and we therefore welcome this advancement. We are concerned that purely subjective qualitative criteria in determining the scope of application would lead to wide inconsistency in the profession and we, accordingly, favour the introduction of quantitative thresholds as well, that should be applied in conjunction with more clearly defined qualitative criteria that focus on the attributes of LCEs. We believe that local legislative and regulatory bodies should engage with stakeholders in the local market to apply such an LCE standard in a manner that is appropriate to our jurisdiction.

Please also refer in our response to the General Comments on Proposed ISA for LCE.

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

Response: The audited entities needs seem to be addressed in the context of a reasonable assurance envisaged in the standard.

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

Response: Please refer to our response in (a).

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: The IAASB should consider revising the scope (and subject to this, the title). Please refer to our response in question 4.

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

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

Response: Guidance such as non-authoritative material would be helpful. A similar guide to the *Guide to Using ISAs in the Audit of SMEs* providing practical examples would be of most value to the users of this standard.

It would be useful if the IAASB provides an example of a sample audit file for an engagement carried out in accordance with the ISA for LCE.

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: The draft standard is easy to understand, and it is clear. Upon revision of the draft standard, we urge the IAASB to avoid specific examples of terminology that will be difficult to translate.

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 find the timeline set for applying the standard as aggressive as the new standard does not only require national due process and translation but also educating auditors to apply it and raising awareness amongst the preparers and users of the financial statements. We therefore ask the IAASB to set a more realistic timeline such as 36 months after the approval of a final standard.

#### *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 IASB's to exclude group audits, apart from the case whereby there is no involvement of component auditors, and subject to the complexity.

23. Respondents in public practice are asked to share information about the impact of excluding group audits from the scope of ED-ISA for LCE on the use of the proposed standard. In particular:

(a) Would you use the standard if group audits are excluded? If not, why not?

Response: Yes, we would.

(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: n/a

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

Response: n/a

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: We would support Option 1 and, in addition to the quantitative and qualitative criteria established in the Authority, further proxies are determined in relation to group audits.

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: No specific comments on this point.

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: If group audits are included in ED-ISA for LCE, we will prefer that all requirements are presented in a separate Part.