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Our response to *Exposure Draft: Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)* is below. We have only included responses to questions that we determined a response is necessary:

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?

Yes – we agree with a standalone standard for less complex entities (LCE) audits. Many small and/or non-complex entities require a reasonable level of assurance over their financial statements. The current ISA standards are detailed and require the auditor to perform the same procedures for a non-complex public sector entity, such as a foundation or student housing operator, as state consolidated financial statements. In our view, an auditor can achieve a reasonable level assurance on a non-complex entity without completing many of the “shalls” in the current ISAs that are not relevant to their audit. An example of this is a 48 unit (two four-story buildings with six units per floor) student housing building. The post-secondary institution has hired a property manager for the day-to-day maintenance of the student housing, including landscaping, sidewalks and parking lot. The contract requires the property manager to provide audited financial statements to the post-secondary institution. In this example and many others, the ISA risk assessment requirements can be overly complex. Even more simply, there are public sector entities such as particular funds that have audited financial statements but may only have a few transactions each year. A public sector auditor should be able to complete an audit without needing to meet all the “shalls” within the current ISAs. Scenarios such as this demonstrate that a standalone standard for LCE audits is appropriate. We recognize that having multiple standalone audit standard adds complexity; however, this is already currently implemented with multiple assurance standards: ISA and ISAE 3000. Note that as a standalone standard, the LCE standard should be independent and have the same authority and due process as other standalone standards. The current exposure draft is missing some key items, including definitions, in order to be a standalone standard. We have noted our other concerns with the proposed standard throughout our response.

- (b) The title of the proposed standard.

We have no concerns with the title of the proposed standard, however we note that by the creation of ISA for Less Complex Entities (ISA for LCE), the current ISAs will therefore become the ISA for More Complex Entities (ISA for MCE). This will make it clear that there are two sets of ISAs and draw a sharper distinction that they are both separate standards, not that one standard (ISA for LCE) is a subset of the other (ISAs).

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

We have no other significant matters related to Section 4A of the Exposure Draft.

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?

We have no significant comments to the proposed IAASB Preface. We note that the IAASB may need to evaluate if the preface fully implements ISA of LCE as a standalone standard, and also recognizes that ISA for More Complex Entities is also a standalone set of standards.

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?

Yes, the proposed Authority is implementable.

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

As noted in Section 1 of the Exposure Draft, *“It is estimated that more than 90% of entities across the world are small and medium-sized entities...”* Given the majority of entities are either small or medium-sized entities, ED-ISA for LCE has the potential to be the common standard globally and the ISAs for More Complex Entities becomes the standard for complex and listed entities, the remaining 10% of entities.

Another possible consequence is that users of ISA will use the guidance within ISA for LCE in their interpretation of the ISAs. For example, ED-ISA for LCE 6.3.14 includes an example where *“the auditor may determine that there are no identified controls other than the entity’s controls over journal entries”* for which *“it is necessary for the auditor to evaluate the design of controls and determine that they have been implemented.”* Note - see response to Question 9 for further comments.

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

One area within the Authority that is not clear is *“public interest characteristics.”* How is *“public interest characteristics”* defined? Are they limited to investor/lender interests or do they include public sector interests? We believe public sector entities should not be automatically prohibited from using ISAs for LCE and the definition of *“public interest characteristics”* needs to clarify that public sector entities are not automatically excluded from the ISA for LCE due to *“public interest characteristics.”* Due to the fact, ED-ISA for LCE includes guidance for public sector entities, we do not believe it is the intent to exclude public sector entities, however clearly stating this fact would be beneficial. If ED-ISA for LCE is using the same definitions of ISAs, then ISA 210 should include a conforming amendment to specifically define *“public interest characteristics.”*

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

We believe the Authority, as set out in the ED, will appropriately inform users of the scoping of the 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?

Yes, the proposed role of legislative or regulatory authorities is clear, however we note that it may not be appropriate for the IAASB to state that a legislative authority does not have the authority to modify the ED-ISA for LCE. A legislative authority may determine it appropriate for their jurisdiction to modify one of A.7.c (i)-(iv) and the IAASB does not have the jurisdiction over the legislative authority. We believe the IAASB should instead characterize use of the ISA for LCE as where permitted by law or regulation.

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.

We do not agree that if “*the audit is an audit of group financial statements,*” it should be specifically prohibited from using the ISA for LCE standard. If each of the consolidated entities (component entities) would qualify to use the LCE standard, we believe the group audit should qualify to use the LCE standard. In the public sector, there are many LCEs that require audited financial statements for public accountability purposes and prohibiting them simply because they are a group audit adds unnecessary costs.

Furthermore, there are multiple characteristics of an audit that indicate that the entity may not be a less complex entity. These characteristics are not incorporated into the prohibitions and the ED incorporates requirements when these characteristics are present. For example, if a firm determines the audit requires an EQCR or the audit team determines it is necessary to use an external expert. Individually, each of these factors is permitted under ISA for LCE. The board should re-evaluate if these individual characteristics, individually and cumulatively, should be permitted for a less complex entity. In our view, entities that require an EQCR, reliance on management’s expert or reliance on an auditor’s expert can be excluded from the ISA for LCE standard because if these are present, the entity is likely not a less complex entity.

5. Regarding the Authority Supplemental Guide:

- (a) Is the guide helpful in understanding the Authority? If not, why not?
- (b) Are there other matters that should be included in the guide?

We have no comments on the Authority Supplemental Guide.

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

We have no other matters related to the Authority for the IAASB to consider at this time.

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).

We agree with the approach as outlined in the Exposure Draft paragraphs 74-77 to develop ED-ISA for LCE.

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

We agree with the objectives; however, we note the continued use of “shall.” “Shall” is used extensively throughout the ED-ISA for LCEs and conflicts with a complete principles-based standard. A full principles-based standard would permit the auditor to select which procedures are required to meet each objective within the standard. We are not suggesting the IAASB remove the “shalls,” however the term “principles-based standard” may not be accurate in paragraph 78.

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

We agree that the principles regarding professional skepticism and professional judgement between the ISAs and ISAs for LCEs should be the same.

(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.

Overall, we do not agree with the concept of introducing “Essential Explanatory Material” or EEM. If the material is “essential,” it should be included within the standard or the standard should be re-written so that the material is no longer “essential” and therefore removed. We disagree with EEM because in practice it becomes interpreted as required and is often used by practice reviewers to identify deficiencies.

Alternatively, if this is simply a naming convention, then the guidance in the ISAs for More Complex Entities should also label application material as EEM.

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).

Overall, the design and structure of ED-ISA for LCE’s is similar to consolidating all the ISAs into a single ISA. We think this is a good approach for a less complex entity standard.

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.

Our comments on Parts 1 through 8 are as follows:

Part 1

- Section 1.3.3 indicates that when the audit evidence is not sufficient or appropriate, the auditor may follow one or more of the provided approaches, including “*Extend the work performed in applying one or more requirements.*” We agree with this requirement; however, the IAASB should consider the need for a GAAS hierarchy to guide the auditor when making such an assessment, similar to a GAAP hierarchy. The exposure draft states ISA for LCE is to be a new, independent standard, equal to the ISAs and ISAE 3000. As a standalone standard, it has equal authority to other assurance standards and users should be able to consider it when making judgements when another standard is silent or unclear. Providing a GAAS hierarchy would be useful to users and help to clearly establish ISA for LCE as an independent standard. The ISAs for More Complex Entities should also include a GAAS hierarchy.

Part 2

- Section 2.4 includes guidance on the use of Automated Tools and Techniques (ATT). This guidance should be further enhanced by providing addition emphasis on the need for the auditor to control the transfer of information/data (similar to a bank confirmation) that is used to complete the ATT. Ensuring the completeness and accuracy of the information received is critical due to the high reliance placed on the information/data.

Part 3

- Section 3.2 covers the responsibility of the engagement partner. For public sector entities, the ISA definition of engagement partner is not always applicable as the individual signing the auditor’s report may not be the person responsible for the completion of the audit. We recommend public sector guidance is added, similar to the following: the term engagement partner may not be the individual signing the auditor’s report in the public sector and the term engagement partner should be applied based on the individual jurisdictions legislation that is applicable for the audit.
- As noted under question 4, the ED incorporates factors that may indicate that the entity is not a less complex entity. Section 3.2.12 provides the example of a difference of opinion between the engagement partner and an EQCR, stating, “*the engagement partner may also consider whether the use of ISA for LCE continues to be appropriate.*” We suggest that in such an instance, the ISA for LCE would no longer be appropriate. We also note that the ISAs for More Complex Entities should have a similar provision: as a separate standard ISAs for More Complex Entities should not be used for Less Complex Entities. Although perhaps rare, if the IAASB really intends the ISA for LCE to be a standalone standard and an auditor thought an entity was complex but it actually was not a complex entity, then the auditor should be required to stop using the ISAs for MCEs and to switch to using ISA for LCE, otherwise the audit is inefficient.
- The documentation of the agreement to use ISA for LCE is currently not included in Section 3.2.13. If the IAASB determines an EQCR is permitted for a less complex entity, we recommend the agreement to use the ISA for LCE by the EQCR be a specific requirement within 3.2.13 (b) and 4.2.1 (see below).

Part 4

- As noted above, the agreement to use ISA for LCE by the EQCR should be included into Section 4.2.1 if the IAASB determines an EQCR is permitted for less complex entities.
- For entities where Section 4.4.3 would apply, we do not believe the entity would be a less complex entity. The ISA for LCE should not incorporate requirements for entities which indicate the entity is not an LCE.
- We suggest the following edit to Section 4.5.1 “*The auditor shall agree the terms of the audit engagement including an ISA for LCE audit, with management...*”

Part 5

- Section 5.2.6 states, “*Discussions among the engagement team shall occur setting aside the beliefs the engagement team may have that management, and where appropriate, those charged with governance are honest and have integrity.*” This wording may not be interpreted as the Board intends. The auditor’s assessment of the integrity of management, and where appropriate, those charged with governance, is a critical part of the auditor’s risk assessment. For example, if the auditor is engaged by those charged with governance and they communicate that they suspect management lacks integrity, the auditor will modify their audit procedures accordingly and not “set aside” this information. This paragraph should be clarified.
- As noted above, the Board should further analyze and clarify when an entity should no longer be considered a less complex entity. Based on this analysis, do entities where an expert is engaged, either by management or the auditor, remain as less complex entities (Section 5.2.8/5.2.9)?
- We note that a less complex entity may not be a going concern and therefore Section 5.2.12 is appropriate. An example of when a less complex entity is not a going concern is the disestablishment of a public sector fund. The government may pass legislation to disestablish a fund and this should not prohibit the use of the ISA for LCE on the final financial statements of the fund.

Part 6

- The wording of Section 6.2.2 Considerations Specific to Public Sector Entities should be updated. Specifically that the auditors “*may obtain information from additional sources such as from the auditors that are involved in performance or other audits related to the entity...*” Public sector auditors are often bound to a high confidentiality and specific legislation that goes beyond rules of professional conduct. This unique obligation should be included within the considerations.
- Section 6.2.3 includes guidance regarding going concern. We suggest further guidance is added to deal with the dissolution or disestablishment of a public sector entity. The going concern assumption in this way is unique in the public sector and specific guidance should be included for when a public sector entity is dissolved or disestablished and the assets, liabilities and operations are transferred to another public sector entity and therefore a cash or liquidation basis of accounting is not necessary or appropriate.
- Section 6.3.1 is prescriptive as it includes a “shall,” however the wording is vague. Specifically, what does the Board mean by “*other external factors*” shall be understood? Which “*external financial performance measures*” shall be understood? Which “*relationships that may result in unrecognized liabilities, future commitments*” are required to be documented? The expectation to meet these requirements should be added.
- The wording for Section 6.3.13 should be updated for when an auditor uses a fully substantive approach. Using a fully substantive approach, the auditor is only required to assess the design and implementation of controls. The wording “*determine if one or more control deficiencies have been identified,*” implies that the auditor has tested controls.
- In the bottom example of Section 6.3.14, the ED states, “*the auditor may determine that there are no identified controls other than the entity’s controls of journal entries.*” We do not agree with this. Fundamentally, we believe that an understanding of design and implementation of each significant financial statement process should always be required. Removal of this requirement significantly decreases the auditor’s ability to make an appropriate risk assessment and should clearly be required by the standard.
- Section 6.4.2 maintains the presumption that there is a risk of fraud in revenue recognition; however, for the public sector this presumption is frequently not applicable. Given the fact that the presumption is frequently not applicable, guidance should be added for the public sector.

- Section 6.8 is not consistent with Section 2.5.1. Specifically by stating, “*It is not necessary to document the entirety of the auditor’s understanding of the entity...*” The requirement that documentation “that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand” the understanding, assessments and conclusions of the auditor is critical and should be maintained. Therefore, this sentence should be removed.

Part 7

- Section 7.3.1 would be improved by clearly stating, “*If the risk of material misstatement were due to fraud, the risk is required to be a significant risk.*”
- Section 7.3.16 is important and clear and needs to remain.
- As previously noted, the going concern assumption is unique in the public sector. It would be useful if guidance was added to Section 7.4 regarding restructuring or re-organizations in the public sector.

Part 8

- Section 8.2 could be improved by including guidance of examples of when it is appropriate for management to not adjust immaterial identified misstatements.
- Regarding Sections 8.5.5-8.5.11, which states “the auditor,” IAASB should clarify that the requirements apply to “the engagement partner.”

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

We agree with the below items, including the removal of Other Information from the auditor’s report.

We note that ISA 700 will need to be updated to refer in the auditor’s report to ISA for MCE, consistent with the logic that ISA for LCE and ISA for MCE are separate standards.

- (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.

11. With regard to the Reporting Supplemental Guide:

We have no comments on the Reporting Supplemental Guide at this time.

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

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.

We have incorporated our suggested improvements throughout our response.

13. Please provide your views on transitioning:

We have not specific transition comments at this time.

(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?

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

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

As an independent standard, future updates and maintenance should follow the same diligence as other standalone standards, i.e. ISAs and ISAE 3000.

Because these are standalone standards, it is not necessary to have parallel updates to both standards at the same time. For example, updates to the ISAs do not require updates to ISAE 3000. In the same way, updates to ISAs for More Complex Entities do not need to result in updates to ISAs for LCE, or vice versa.

However, we note that in several cases, the IAASB should begin to have projects that go across all its standards. This would avoid possible issues, such as with the ISQM standards where differential engagement-level quality control requirements exist between the ISAs and ISAEs. So rather than a project that only updates ISA 500, instead IAASB should plan a project that examines what audit evidence is, regardless of whether it is evidence used in a financial statement audit or an assurance engagement under ISAE 3000.

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

As an independent standard, future updates and maintenance should follow the same diligence as other standalone standards, i.e. ISAs and ISAE 3000.

Note: We have no significant comments for questions 16-21 and therefore we have not included them in our response.

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.

We do not agree that if “*the audit is an audit of group financial statements,*” it should be specifically prohibited from using the ISA for LCE standard. If each of the consolidated entities (component entities) would qualify to use the LCE standard, we believe the group audit should qualify to use the LCE standard. In the public sector, there are many LCEs that require audited financial statements for public accountability purposes and prohibiting them simply because they are a group audit adds unnecessary costs. Therefore, ISA for LCE should include group audits.

Thank you for the opportunity to comment.

Sincerely,

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