International Auditing and Assurance Standards Board
529 5th Avenue
New York
New York, 10017

Re: Exposure Draft for the Proposed International Standard on Auditing for Audits of
Financial Statements of Less Complex Entities (ISA for LCE).

Thank you for the opportunity to comment on the above-noted exposure draft.

Famme & Co. Professional Corporation operates three offices in Southwestern Ontario, Canada, with 12 partners and a staff in excess of 100. The firm has served the area since 1947 with an emphasis on the farm and agricultural sector, along with manufacturers, mutual insurance companies, and a wide range of not-for-profit organizations.

We believe the existing ISA (CAS in our Canadian context) present significant challenges in application for Less Complex Entities. We are happy to see the IAASB addressing this issue.

We offer the following responses to the questions posed in the Exposure Draft.

**Section 4A – Overarching Positioning**

**Question 1**

(a) We do not support a standalone standard for LCE. We believe a separate standard would only further the “standards overload” being experienced by professional accountants over the last decade. The practicalities of introducing the standard would involve considerable time and expense in staff training, internal procedural and form changes and amendment of firm policies. Given the direct relationship between ISA and ISA for LCE, any future revision in one standard would necessitate a corresponding change to the second standard. The effort to implement each revision, is then doubled. We believe that clearly defined “LCE” paragraphs introduced into each section of the ISA would be much easier to apply appropriately. We do not support the use of any supplemental “non-authoritative” guidance. Any requirements or expectations should be included in the ISA.

(b) The title of the proposed standard is cumbersome, but we do not see any viable alternative. It needs to clearly enunciate the content of the standard and we believe it achieves this.

(c) Nothing to note.
Question 2

We agree with the proposed conforming amendments to the IAASSB preface.

Section 4B- Authority of the Standard

Question 3

(a) We believe the Authority is implementable, with the addition of some expanded definitions. For instance, “public interest characteristics” is open to a wide range of interpretations. Many government-funded social service providers and not-for-profit entities may have some “public interest characteristics”, in that they have a certain exposure and prominence in a local community. However, they otherwise might fit the definition of “less complex”. “Public interest” is a difficult concept to measure or assess and it is unclear how entities of this nature are to be considered under this proposed standard.

(b) Nothing to note.

(c) See point (a) above.

(d) We do not believe the proposed standard will achieve the intended objective of informing stakeholders. In fact, we believe it will further widen the “expectations gap”. There is existing misunderstanding among stakeholders as to the differences between audits and reviews. Introduction of a second audit standard will only add to the existing confusion and misunderstanding.

(e) We believe this section clear and appropriate.

Question 4

(a) We believe the specific prohibitions are clear and complete.

(b) We anticipate these would be challenging to put into practice. We find the use of the terms “topics” and “themes” at paragraph 67 to be particularly outside of the usual terminology and rather vague.

Question 5

(a) The guide is helpful; see general comments below at Question 11.

(b) None.

Question 6

Nothing to note
Section 4C – Key Principles Used in Developing ED-ISA for LCE

Question 7

(a) Subject to further comment below, starting with existing ISA requirements is an appropriate approach.

(b) We agree with these paragraphs.

(c) We agree with the principles in these paragraphs.

(d) We do not agree with including EEM in the body of the standard. For consistency with other Handbooks, we would prefer to see the explanatory material follow the specific ISA requirements in each section. Intermingling requirements with explanatory material serves to confuse users. We find this approach inconsistent with the drafting principles as detailed in paragraph 98 which states the goal of “…presenting any required actions as clearly, understandably and stated as simply and concisely as possible.”

Section 4D- Overall Design and Structure of ED-ISA for LCE

Question 8

We find the design and structure of the proposed standard to be much more useful than the design and structure of the existing ISA (CAS). The proposed standard mirrors the workflow nature of an audit and therefore provides a practical approach in the planning and performance of an audit. Note our comments on question 1 (a), however. We don’t support the standalone approach, and would prefer to see the existing ISAs laid out in this more logical flow.

If a standalone standard is ultimately approved, we feel it could be made more useful if certain elements common to all sections were removed and given their own sections. While this is contrary to the work-flow design noted above, these requirements would be more likely to be adequately addressed if they were in their own sections. Having specific elements of each scattered throughout virtually all other sections of the standard increases the risk of a requirement being missed. Specifically, we feel that documentation requirements, communication requirements, fraud considerations, going concern and use of estimates are all topics that could more efficiently be handled in their own sections. We also find it redundant to address certain topics in planning and performance, and then repeat and expand on these as 7.4 Specific Focus Areas.
Section 4E- Content of ED-ISA FOR LCE

Question 9

See comments below on a Part-by-Part basis:

Part 1. Auditor responsibility for fraud is clearly addressed here. There is no need to address it again in each subsequent section.

Part 2. The EEM discusses the use of ATT. Given the nature of an LCE, we believe this audit technique would rarely be appropriate or even possible in an entity to which this proposed standard might apply.

Part 3. No comments.

Part 4. No comments.

5.2.2 The EEM suggests that a “suitable brief memorandum” can serve as documentation for the scope, timing and direction for the audit. Given the many specific documentation requirements, we do not see how this approach could adequately address these requirements.

5.2.8 We do not see how an entity that falls under the scope of an LCE would ever be using an expert to assist them. An LCE, as we would encounter it in practice, would be an owner-manager entity or a not-for-profit organization with limited staff, simple accounting policies and few, if any, complex transactions or estimates that would necessitate the need for an expert. We believe this section is unnecessary or could be greatly reduced.

5.2.9 We believe any audit requiring us to bring in an expert, would, by definition, be scoped out of a standard for LCEs.

5.2.12 We believe that any entity that falls under the scope of an LCE would rarely, if ever, perform any formal assessment of its ability to continue as a going concern.

6.3.2 We believe that any entity that falls under the scope of an LCE would rarely, if ever, perform any formal processes to identify and respond to risks of fraud or error. In many instances, any entity that falls under the scope of an LCE would not have a separation between those charged with governance and management.

6.3.7 We believe that any entity that falls under the scope of an LCE would rarely, if ever, perform any formal processes to identify risks.

6.3.10 and 6.3.11 In practice, none of our LCEs prepare their own financial statements. The statements and all disclosures required under the applicable accounting framework are prepared by our office. We believe this is the case for most LCEs and their auditors. We feel these sections are moot under an LCE scenario.
6.3.12 In practice, none of our LCEs have processes for accounting estimates. No formal models are used. Estimates are usually triggered by enquiries from us during the audit.

6.3.14 (b) In practice, an entity defined as an LCE would have a simplified book-keeping function and no formal controls over journal entries. LCEs most typically record on a cash transaction basis and journal entries are rarely used.

6.5.7 (a) (i) In a closely-held LCE, management is directly responsible for most accounting functions, and controls will be few. Therefore, the ability to override controls is a given.

6.6.1 (a) through (c) In practice, management of an LCE is not likely to be making fraud assessments, responses and communications. We feel these sections are moot under an LCE scenario.

7.4.1 Management’s assessment of the going concern assumption has been addressed in an earlier section. Please note our comments at 5.2.12.

Part 8. No comments.

**Question 10**

Part 9. (a) We agree with the presentation, content and completeness of this section. We believe Tables A, B and C are very useful, and should be included in the EEM.

(b) In regards to the auditor’s report, we do not see the need to specify the auditing standard being used. An audit performed under the proposed LCE standard and an audit performed under ISA (CAS) should, theoretically, result in the same audit opinion. There should be no reason for users to know which approach was taken, as long as the auditor fully complies with the standard used. We would suggest wording along the lines of “.... In accordance with (Canadian/International) generally accepted auditing standards.” There is no benefit to the users to know which specific standard was used. The critical factor for them is to know that the audit meets all professional requirements. To introduce new terminology will only serve to further widen the expectations/knowledge gap between users and auditors. The use of this new term might lead a stakeholder to believe that a lesser quality of audit has been applied.

(c) We believe that appropriate reporting is perhaps the most critical consideration in an audit, and as such, warrants inclusion in the standard itself. An auditor should not have to consult a secondary source when developing the auditor’s report.
Question 11

We find the Reporting Supplementary guide to be helpful. However, we do not note that the proposed ISA appears to require 2 supplemental guides (Proposed Supplemental Guidance for the Authority of the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities and Draft Supplemental Guidance for the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities – Auditor Reporting). A standard that requires EEM within it and some 40 pages of Supplemental Guidance perhaps has not been drafted clearly enough in the first place.

Question 12

Please see the specific comments included above.

SECTION 4F-OTHER MATTERS

Question 13

(a) The transition to a new stand alone standard would require an extensive, expensive and time-consuming program of staff training and a rewriting of all audit forms, policies and the firm’s Quality Assurance Manual.

(b) Nothing to note.

Question 14

We agree with the proposed approach.

Question 15

We do not support early adoption provisions for any subsequent revisions. We further suggest that all future revisions carry the same effective date wherever possible. We would suggest that revisions become effective for fiscal periods ended on or after December 14th of a given year. This would effectively result in the same standards in effect for all audits performed in a calendar year. Mid-year revisions require a second set of standards (audit forms, procedures and policies) to be in use at the same time and can lead to misapplication of the standards. We would further suggest that all future effective dates be based on periods “beginning on or after (date)” rather than having some effective for periods “ending on or after (date)”. Again, this would serve to reduce confusion and help ensure auditors are applying the revisions in the correct periods.

Question 16

We can foresee situations when engagements making use of the 800 series might qualify for LCE application. We would hope there would be no need to include a complete re-write of these as an integral part of the LCE standard, but instead, there could be cross reference to them and wording to the effect of “application of the principles as detailed in the 800 series.”
Question 17
(a) We understand that the proposed standard will be adopted in Canada, with minimal amendments.

(b) We believe the proposed standard would allow us to reach an appropriate reasonable assurance opinion. We do have concerns however, that confusion may result among users when they see reference to another auditing standard. We are uncertain at this time if governments, corporate legislation and lenders would accept this standard as adequate for their purposes.

(c) See comments at 13 (a)

Question 18
Our office initially welcomed the prospect of an audit standard scaled to LCEs. We believe (subject to some clearer definitions in the standard) many of our existing audit clients would qualify as LCEs for these purposes. We hoped for a standard that would result in a more focused and efficient audit that addresses the needs of smaller, less-sophisticated and less complex entities and which could be performed in a cost-effective manner. Having studied the proposed standard, however, we find virtually all the existing requirements, presented in a different format and wording with few efficiencies and, in fact, many redundancies. We find certain of the specific paragraphs to be moot points in the LCE context. Indeed paragraph 101 clearly states that "...it is not envisioned that ED-ISA for LCE will necessarily reduce the core procedures the auditor is required to perform.....". This begs the question, "Has the objective been achieved?" We do not believe this proposal meets the IAASB’s stated (Executive Summary of the Exposure Draft) goal to develop a standard "...proportionate to the typical nature and circumstances of an audit of an LCE.....".

We do not believe the effort and expense in transitioning our clients to this standard will result in any efficiencies of time or resources. We anticipate a large upfront cost in time and training with little or no benefit after the fact. We have been exercising professional judgement on the application of the existing IAS (CAS in Canada) in the LCE setting, in order to apply practical and efficient approaches, while still meeting the standards. We anticipate we will continue this practice, and will not choose to apply any new ISA (CAS) for LCEs that may be approved.

We would far rather see expanded, specific provisions in the IAS (CAS) to allow scaling to the LCE context.

Section 4G- Approach to Consultation and Finalization
19. No comments given our position as stated above.
20. No comments.
21. We believe 18 months is adequate time to allow for a transition to the new standard. As noted earlier, we do not support provisions for early adoption.
Section 5- Group Audits

No comments due to the limited number of these in our practice.

Once again, we thank the IAASB for this opportunity to comment on the above-noted exposure draft.

Yours truly,

FAMME & CO. Professional Corporation

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Partner

LME/dgs