

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.
- 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:

Cliff Nyandoro

Organization (*where relevant*):

Institute of Certified Public Accountants of Kenya (ICPAK)

Country/Region/Jurisdiction:

Kenya

General Comments on Proposed ISA for LCE

Response: *[Please include here comments of a general nature and matters not covered by the questions below.]*

	<p><i>We support IAASB's initiative on the timely development of the proposed ISA for Less Complex Entities (LCEs). The responses provided below are generally applicable to the region, with specific responses provided for areas which we felt were uniquely applicable to the Kenyan context.</i></p> <p><i>Our view compliments that of the Pan-African Federation of Accountants (PAFA) with whom we collaborated in reaching a consensus viewpoint in most of the responses sought.</i></p>
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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:

	<p><i>ICPAK supports the standalone nature of the proposed standard.</i></p> <p><i>Additionally, we are of the view that the Authority of the proposed standard should make it clearer that the auditor cannot cherry pick a requirement(s) from the ISAs if it is not part of the core requirements in the ISA for LCE.</i></p>
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- (b) The title of the proposed standard.

Response:

	<p><i>We support the title of the proposed standard.</i></p>
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- (c) Any other matters related to ED-ISA for LCE as discussed in this section (Section 4A).

Response:

	<p><i>We are in agreement that the proposed standard has been developed to include core requirements to allow an auditor to express a reasonable assurance audit opinion.</i></p>
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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 are in agreement with the proposed conforming amendments to the IAASB Preface.
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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:

	<p>General Comments</p> <p><i>The proposed standard needs to be consistently implemented across jurisdictions, by firms and on engagements. As such, the Authority of the proposed standard needs to be clear, unambiguous, provide little room for professional judgment, and provide clear direction and sufficient guidance.</i></p> <p>Specific Comments</p> <p><u>Authority – Specific Prohibitions</u></p> <p><i>We suggest that the IAASB consider the following enhancements:</i></p> <ul style="list-style-type: none"> <i>Provide a clearer link between the term “entities that have public interest characteristics” (paragraph A5) and the entities referred to in paragraphs A6-A7. Although paragraph A5 is true, it does not flow through to paragraphs A6-A7.</i> <p><u>Authority Supplemental Guide</u></p> <p><i>We are supportive of the Authority Supplemental Guide and believe that it is necessary to read the Supplemental Guide alongside the Authority in the proposed standard to obtain a complete understanding of the authority of the proposed standard.</i></p> <p><i>We propose that the IAASB consider the following enhancements to the Authority Supplemental Guide:</i></p> <ul style="list-style-type: none"> <i>Remove extracts from the Authority of the proposed Standard to reduce its length.</i> <i>Make it clearer in paragraph 31 that the auditor would be prohibited from applying the requirements as illustrated in (a)-(c) in an audit of an LCE because they do not form part of the core requirements in the proposed Standard. Furthermore, include paragraph 27 of the explanatory memorandum to further illustrate this important concept.</i>
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(b) Are there unintended consequences that could arise that the IAASB has not yet considered?

Response:

	None.
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(c) Are there specific areas within the Authority that are not clear?

Response:

	<i>None.</i>
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(d) Will the Authority, as set out, achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard?

Response:

	<i>Yes.</i>
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(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:

	<i>Overall, we believe that the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions is clear and appropriate.</i>
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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:

	<i>No comment.</i>
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5. Regarding the Authority Supplemental Guide:

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

Response:

	<i>No comment.</i>
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(b) Are there other matters that should be included in the guide?

Response:

	<i>No comment.</i>
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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:

	<i>No comment.</i>
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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:

	<p><i>We support the approach taken by the IAASB as to how the ISA requirements have been incorporated in the proposed standard – using the ISAs as a departure point and replicating and adapting these requirements considered core to an audit of an LCE.</i></p> <p><i>However, it is recommended that Implementation Guidance is issued as soon as possible after the issue of the final standard to support auditors by providing further explanation of the requirements and guidance for carrying them out.</i></p>
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- (b) The approach to the objectives of each Part of the proposed standard (see paragraphs 78-80).

Response:

	<i>We support the approach to the objectives of each Part of the proposed standard.</i>
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- (c) The principles in relation to professional skepticism and professional judgement, relevant ethical requirements, and quality management (see paragraphs 81-84).

Response:

	<i>We are in agreement with the principles in relation to professional scepticism and professional judgement, relevant ethical requirements and quality management.</i>
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- (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:

	<p><i>(i) We agree with the approach to the content of the EEM, including that it serves the purpose for which it is intended.</i></p> <p><i>(ii) It is our belief that the EEM is sufficient. However, it is recommended that Implementation Guidance is issued as soon as possible after the issue of the final standard to support auditors by providing further explanation of the requirements and guidance for carrying them out.</i></p> <p><i>(iii) We support the way that the EEM has been presented within the proposed standard</i></p>
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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:

	<p><i>We are comfortable with the overall design and structure of the proposed standard as well as the overall drafting principles.</i></p>
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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:

	<p><i>Overall comments:</i></p> <ul style="list-style-type: none">• <i>Throughout the proposed standard, the proposed standard is referred to in different ways:</i><ul style="list-style-type: none">○ <i><u>The</u> [draft] ISA for LCE.</i>○ <i><u>This</u> [draft] ISA for LCE.</i>○ <i><u>This</u> [draft] <u>standard</u>.</i> <p><i>It is recommended that the proposed standard be consistently “named” throughout the standard.</i></p> <p><i>Please refer below to comments on Parts 1-8 of the proposed standard.</i></p> <p>Part 1:</p> <p><i>No comments.</i></p> <p>Part 2:</p> <p><i>No Comments.</i></p> <p>Part 3:</p>
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	<p>No Comments.</p> <p>Part 4:</p> <p>No comments.</p> <p>Part 5:</p> <p>Comments:</p> <ul style="list-style-type: none"> Paragraph 5.2.11. is an example of a long and complicated paragraph. It is a combination of paragraphs 9-11 of ISA 620¹. In themselves, paragraph 10 of ISA 620 contains two sub-bullets and paragraph 11 contains three sub-bullets. In the spirit of the CUSP Drafting Principles and Guidelines, it is suggested that paragraph 5.2.11 be split into three requirements that mirror paragraphs 9-11 of ISA 620. <p>Part 6:</p> <p>No comments.</p> <p>Part 7:</p> <p>No Comments.</p> <p>Part 8:</p> <p>No comments</p>
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10. For **Part 9**, do you agree with the approach taken in ED-ISA for LCE with regard to auditor reporting requirements, including:
- The presentation, content and completeness of Part 9.
 - The approach to include a specified format and content of an unmodified auditor's report as a requirement?
 - The approach to providing example auditor's reports in the Reporting Supplemental Guide.

Response:

	<p>(a) The presentation, content and completeness of Part 9:</p> <ul style="list-style-type: none"> We agree with the presentation, content and completeness of Part 9. Editorial to the International Auditors Report – Basis for Opinion on page 141 of 170: <p><i>The title of the ISA for LCE should read" International Standard <u>on</u> Auditing <u>for</u> Audits of Financial Statements of Less Complex Entities and not International Standard <u>for</u> Auditing <u>on</u> Audits of Financial Statements of Less Complex Entities.</i></p>
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¹ ISA 620, Using the Work of an Auditor's Expert

	<p>(b) The approach to include a specified format and content of an unmodified auditor's report as a <i>requirement</i>?</p> <ul style="list-style-type: none"> • <i>Yes, we agree with this approach.</i> <p>(c) The approach to providing example auditor's reports in the Reporting Supplemental Guide.</p> <ul style="list-style-type: none"> • <i>Yes, we agree with the inclusion of example auditor's reports in the Reporting Supplemental Guide.</i>
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11. With regard to the Reporting Supplemental Guide:

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

Response:

	<i>We support the development of the Reporting Supplemental Guide which we believe to be necessary and helpful.</i>
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(b) Are there any other matters that should be included in relation to reporting?

Response:

	<i>None</i>
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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:

	<i>We have no additional comments</i>
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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:

None.

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

Response:

A guidance document would go a long way in addressing any challenges that might arise in the application of the Standard.

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

Response:

	<i>Yes, we agree with the proposed approach to future updates and maintenance.</i>
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15. For any subsequent revisions to the standard once effective, should early adoption be allowed? If not, why not?

Response:

	<i>Yes, we do not have any objections to early adoption and in fact support it.</i>
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16. Should a separate Part on the ISA-800 series be included within ED-ISA for LCE? Please provide reasons for your response.

Response:

	<i>We support the IAASB's approach to focus on developing an auditing standard for audits of complete sets of general-purpose financial statements of LCEs first and considering, if needs be, adding parts of the ISA 800 series as necessary in order to avoid over complicating the proposed LCEs standard at this early stage.</i>
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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:

	<i>Yes, the proposed standard will be applicable in our jurisdiction.</i>
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(b) Whether the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.

Response:

	<i>Yes, the Standard meets the needs of the different groups.</i>
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(c) Whether there are aspects of the proposed standard that may create challenges for implementation (if so, how such challenges may be addressed).

Response:

	<i>Yes, although to a small extent. Awareness creation and sensitising members</i>
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	<i>and practitioners will mitigate any possible anticipated challenges.</i>
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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:

	<i>None at the moment.</i>
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Section 4G - Approach to Consultation and Finalization

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

Response:

	<i>We are of the view that Implementation Guidance be issued as soon as possible after the issue of the final standard to support auditors by providing further explanation of the requirements and guidance for carrying them out.</i>
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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:

	<i>None.</i>
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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:

	<i>We are of the view that this would be sufficient.</i>
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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:

	<i>While we appreciate the logic provided by the IAAS in their views to exclude group audits from the scope of the proposed standard, we are of the view that not all groups are not complex and as such cannot be a “one size fits all” approach to group audits. We therefore implore upon the IAASB to consider a more innovative approach to addressing group audits.</i>
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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:

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(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:

	<i>No comment.</i>
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(c) What common examples of group structures and circumstances within your practice would be considered a less complex group.

Response:

	<i>No comment.</i>
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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:

	<i>No comment.</i>
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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:

	<i>No comment.</i>
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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:

	<i>No comment.</i>
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