



**INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
OF UGANDA**

Our Ref: STA/001

17 January 2022

International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue, 6th Floor,
New York, NY 10017
United States of America

Submitted via website: www.iaasb.org

Dear Sir/Madam,

**EXPOSURE DRAFT- PROPOSED INTERNATIONAL STANDARD ON AUDITING FOR
AUDITS OF FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES (ISA FOR LCE)**

The Institute of Certified Public Accountants of Uganda (ICPAU) appreciates the opportunity to respond to the **Exposure Draft- Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)**.

In a bid to collect views from our members in respect to the subject line, ICPAU conducted a survey on key areas of the Exposure Draft. We herein attach our comments to the Exposure Draft (Appendix I) and survey results (Appendix II) for your consideration. We hope you will find our comments helpful.

For any inquiries relating to this comment letter, kindly contact us at standards@icpau.co.ug.

Yours sincerely,

A handwritten signature in dark ink, appearing to be 'M Omona', enclosed within a circular scribble.

CPA Mark Omona
DIRECTOR STANDARDS AND REGULATIONS
For: **SECRETARY/CEO**

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

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APPENDIX I: ICPAU'S COMMENTS ON THE IAASB EXPOSURE DRAFT- PROPOSED INTERNATIONAL STANDARD ON AUDITING FOR AUDITS OF FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES (ISA FOR LCE)

Section 4A- Overarching Positioning of ED -ISA for LCE

Question 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?

Comment:

As per the survey results (Appendix II), ICPAU is supportive of the standalone nature of the proposed standard. In Uganda, there are a significant number of entities that fulfil the criteria for classification as LCEs. Therefore, majority of the practitioners in the country are likely to adopt the new standard.

ICPAU is conscious of the possible consequence that auditors whose clients are mainly LCEs may subsequently only rarely refer to or apply the ISAs when the new standard is released. This raises concern over the training and development implications in using the Standard. The new standard is likely to create need to training, retraining and continuing professional development to ensure consistency in application of the ISA for LCEs and the ISAs. It is therefore imperative that the supplemental guidance is provided to addresses these issues and any concerns that may arise regarding the level of assurance provided by the ISA for LCEs.

- b) The title of the standard.

Comment:

We are supportive of the title of the proposed standard.

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

Comment:

The approach adopted in ED-ISA for LCEs should allow for use of the Standard in audits of public sector entities, cooperatives entities and not-for-profit organisations, subject to jurisdictional restrictions. Although these groups may have public interest characteristics, many such entities are generally are not complicated and are likely to be fulfil the qualitative considerations of the LCE standard. We recommend additional explanatory material to specify that ISA for LCE may be appropriate even for not-for-profit organizations, or cooperative entities.

Within our jurisdiction, a number of retirement benefit schemes and collective investment schemes are small, less complex and have a small user or membership base.

In the circumstances, the ISA for LCEs would have scoped such entities into the prohibitions (because the broad class is prohibited) when they, in fact, do not exhibit public interest characteristics. We therefore support the view that the proposed standard allows for the ability to 'modify' these classes of prohibited entities through:

- (a) Explicitly permitting a specific sub-set within a class to be able to use the proposed standard; and
- (b) Introducing further classes of entities prohibited from using the proposed standard.

We wish to point out that entities operating in a new or emerging markets should not be scoped out of the ISA for LCEs (see paragraph A.9) merely for that fact. Many entities operating in new or emerging markets are in fact simple in business operation and nature of activity. We recommend that the language in paragraph A.9 should be amended to prevent such less-complex entities from being scoped out of the ISA for LCEs.

Question 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?

Comment:

We agree with the proposed conforming amendments to the IAASB Preface.

Authority of the Standard

Question 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?**

Comment:

ICPAU believes that the Authority as presented in the ISA for LCEs is implementable. This is especially true for the requirements relating to the scope and applicability of the proposed standard. To further enhance the implementability of the Authority, we also believe that the implementation guidance should be released as soon as possible to support firms in developing policies or procedures in relation to the use of proposed standard.

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

Comment:

Refer to our response in 1 above.

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

Comment:

It is explained in the Executive Summary that the IAASB considered the IASB's "public accountability" approach to the applicability of the IFRS for SMEs, to describe the scope for which entities the standard is not appropriate. And that the IAASB decided against the use of the IASB concept of public accountability.

We believe that use of the IASB *public accountability* approach would have ensured a consistency in use of both the IFRS for SMEs and the ISA for LCEs. Due to the importance of this issue, we recommend that additional explanatory material be provided to clarify the distinction in type of entities that apply the IFRS for SMEs vis a vis the entities for which the ISA for LCEs is acceptable.

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

Comment:

Except for the issues in 3 (c), we believe that the Authority, as set in the proposed standard, will achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed 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?

Comment:

Except for our comments in 1(c) above, 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.

Question 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.

Comment:

We are generally supportive of the proposed limitations relating to the use of the proposed standard especially for listed entities as well as entities described in paragraphs 55- 61. However in relation to the:

- i) Specific prohibitions

We are of the view that certain exceptions should be made for retirement benefit schemes (entities that provide post-employment benefits), collective investment entities, as well as group audits. In our jurisdiction, there are many retirement benefit schemes, which are not complex and have a limited number of users (usually restricted to provision of services to employees of a single entity). They also tend to have straightforward investments, limited to within the country. These entities should be included within the scope of the standard.

Please refer to questions 22- 25 for our views relating to group audits.

ii) Qualitative characteristics

While ICPAU agrees with the prohibition of entities with complex matters or circumstances relating to the nature and extent of activities, operations, ownership and corporate governance arrangements, we believe that further guidance could be provided by the IAASB to jurisdictions on quantitative thresholds to be considered when specifying additional prohibitions from use of the proposed standard.

Question 5: Regarding the Authority Supplemental Guide:

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

Comment:

We believe that the Supplemental Guide is helpful in understanding the Authority.

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

Comment:

Refer to our comments in 3 (c) and 4.

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

Comment:

No, additional comments.

Section 4C- Key Principles Used in Developing ED- ISA for LCE

Question 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).

Comment:

We support the approach taken by the IAASB in the incorporation of the ISA requirements in the proposed standard. This will help promote public confidence in audits performed using the proposed standard since the new standard adopts and replicates all the core requirements of audit in the audits of LCEs.

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

Comment:

We support the approach to the objectives of each Part of the proposed standard.

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

Comment:

We agree with the principles in relation to professional skepticism and professional judgment, relevant ethical requirements and quality management.

- 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.

Comment:

- i) We agree with the approach to the content of the EEM, as we believe that it will serve the purpose for which it is intended.
- ii) We believe that the approach to EEM is sufficient.
- iii) ICPAU supports the way the EEM has been presented within the proposed standard.

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

Question 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 (paragraphs 98- 101).

Comment:

We agree with the overall design and structure of the ED-ISA for LCE.

Section 4E- Content of ED- ISA for LCE

Question 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 a subheading for each of the Parts of the proposed standard.

Comment:

We have no specific comments on this.

Question 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.

Comment:

We agree with the presentation, content and completeness of Part 9 of the ED- ISA for LCE.

- b) The approach to include a specified format and content of an unmodified auditor's report as a requirement?

Comment:

We agree with the approach to include a specified format and content of an unmodified auditor's report.

- c) The approach to providing example auditor's reports in the Reporting Supplemental Guide.

Comment:

We agree with the approach to provide example auditor's reports in the Reporting Supplemental Guide.

Question 11: With regard to the Reporting Supplemental Guide:

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

Comment:

We believe that the reporting support material will be helpful as it will enhance compliance with the requirements of the proposed ISA.

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

Comment:

No comment.

Question 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.

Comment:

No comment.

Section 4F- Other Matters

Question 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?

Comment:

Refer to 1 (a).

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

Comment:

An implementation guide would be instrumental in addressing challenges related to use of the proposed ISA.

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

Comment:

We agree with the proposed approach to future updates and maintenance of the standard and related supplemental guidance.

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

Comment:

ICPAU supports early adoption for any subsequent revisions to the standard once effective.

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

Comment:

ICPAU supports the inclusion of a separate part of the ISA 800 series within the ED- ISA for LCEs to address specialized areas of audits of LCEs.

Question 17: In your view, would ED- ISA for LCE meet the needs of users and other stakeholders of 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.

Comment:

Overall, we believe that ED-ISA for LCE would meet the needs of users and other stakeholders. The proposed standard has been widely welcomed in Uganda and we believe that it will be applied once it becomes effective. The standard will be particularly useful to smaller audit practitioners that find the current set of ISAs too large and cumbersome. As noted in 1 (a), majority of the audit clients in our jurisdiction qualify for classification as LCEs and as such, many auditors will have to use this standard for such audit engagements.

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

Comment:

We believe that the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.

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

Comment:

Refer to our comments in 1.

Question 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?

Comment:

No additional comments.

Section 4G- Approach to Consultation and Finalization

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

Comment:

We believe that an implementation guide, in addition to the supplemental guide will be useful in the implementation of the proposed standard.

Question 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.

Comment:

No comments.

Question 20: 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.

Comment:

We agree that this time would provide a sufficient period to support effective implementation of the ISA for LCEs.

Section 5- Group Audits

Question 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.

Comment:

We agree that group audits should generally be excluded from the scope of the ED-ISA for LCEs. However, there should be some exceptions for relatively simple groups, which have straightforward roles and structures. These types of groups tend to operate in a single country. Most of the groups in Uganda have relatively simple structures, and they tend to operate within the country. We believe that the scope of ED-ISA for LCEs can adequately cover simple groups.

Question 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?**

Comment:

We believe that the standard will be widely applied in Uganda since the country has very few groups, which as noted above are usually very simple groups with straightforward roles and structures. Therefore, since majority of the audit clients in the county are typically LCEs, then it can be assumed that the standard will be widely used in Uganda.

- 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?**

Comment:

We believe that less than 5% of the audits in our jurisdiction qualify as group audits that would likely be able to use the ED- ISA for LCEs.

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

Comment:

The structures and circumstances that could be considered less complex groups in Uganda include all those groups where a proprietor invests in a number of businesses in different industries such as manufacturing, hospitality, education or real estate. In most cases, the proprietor will then identify them all as his/her group of companies and they will often have the same overall management. We are of the view that such groups in the country that identify as a group of companies be incorporated within the scope of the ED-ISA for LCEs.

Question 24: If group audits are to be included in the scope of ED- ISA for LCE, the IAASB is looking for views about how this 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.

Comment:

We support the view that proposed standard sets out qualitative characteristics for complexity specific to groups to help users of the proposed standard to determine themselves whether a group would meet the complexity threshold.

Question 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?

Comment:

No comment.

Question 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.

Comment:

We support the option of presenting all requirements pertaining to group audits in a separate Part of the standard which then be referred to during the relevant audits. This would reduce

the amount of unnecessary information that auditors of non-group LCEs would have had to filter through when using the standard.

APPENDIX II: ICPAU’S CONSULTATION ABOUT THE PROPOSED INTERNATIONAL STANDARD ON AUDITING (ISA) FOR AUDITS OF FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES (ISA FOR LCEs)

1.0 Introduction

ICPAU conducted a survey to obtain members’ views about the proposed ISA for audits of financial statements of Less Complex Entities (LCEs). The survey was administered electronically to members by email from August to October 2021.

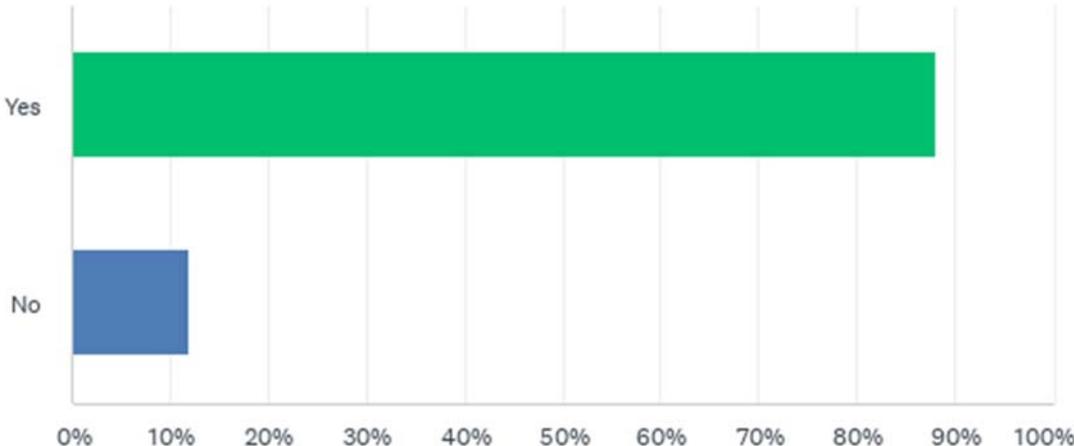
60 responses were obtained and analyzed. This survey report describes the responses, based on the survey results.

The report is presented according to members’ responses to the issues below:

- Preliminary Information
- Specific requirements in the proposed standard
- Conclusion and recommendations

2.0 Preliminary Information

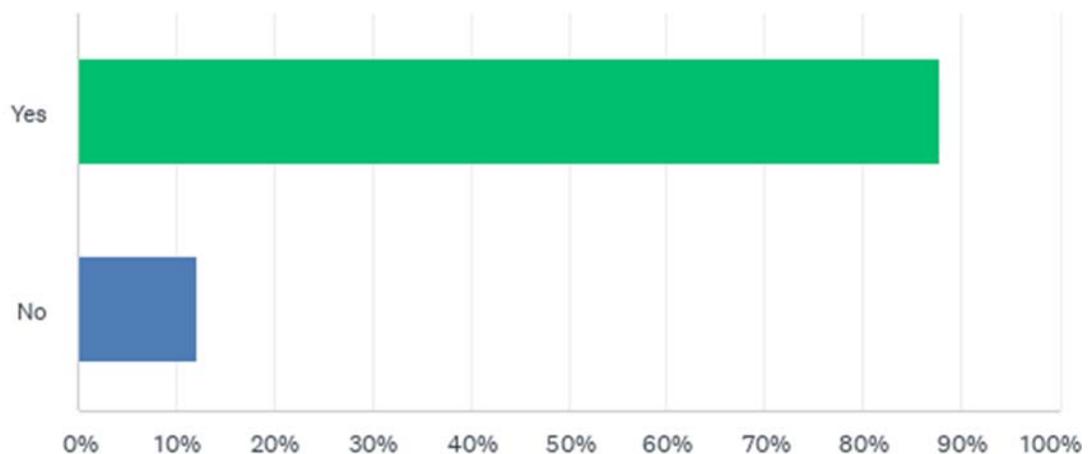
This section of the report contains general views of the respondents about the proposed ISA for LCEs. The survey results indicated that majority of the respondents (88%) supported the standalone “self-contained” nature and the title of the proposed standard (ISA for LCEs). (See below for detailed responses).



Qtn: Do you agree with the standalone nature and title of the proposed ISA for LCEs? Survey responses collected August- October 2021, from ICPAU members, n= 60.

3.0 Specific requirements in the proposed standard

The proposed standard is not designed for obtaining sufficient appropriate audit evidence for complex matters or circumstances and thus provides a clear description of the types of entities for which the ISA for LCEs is not intended. The survey indicated that about 88% of the respondents agreed with the limitation in the proposed standard about the types of entities for which the ISA for LCEs is intended. The graph below provides the details of the respondents' views.



Qtn: There are limitations relating to the use of the proposed ISA for LCEs. Specific classes of entities for which use of the proposed standard is prohibited include where:

- a) *Laws or regulations in a jurisdiction either explicitly prohibit the use of the proposed ISA for LCEs or specify the use of auditing standards, other than the proposed ISA for LCEs, for an audit of financial statements in that jurisdiction*
- b) *The entity is a listed entity*
- c) *An entity meets one of the following criteria:-*
 - *An entity one of whose main functions is to take deposits from the public*
 - *An entity one of whose main functions is to provide insurance to the public*
 - *An entity whose function is to provide post-employment benefits*
 - *An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public*
 - *A class of entities where use of the proposed ISA for LCEs is prohibited for that specific class of entity by a legislative or regulatory authority or relevant body with standard- setting authority in the jurisdiction.*
- d) *The audit is an audit of group financial statements*

Do you agree with these limitations? Survey responses collected August- October 2021, from ICPAU members, n= 60.

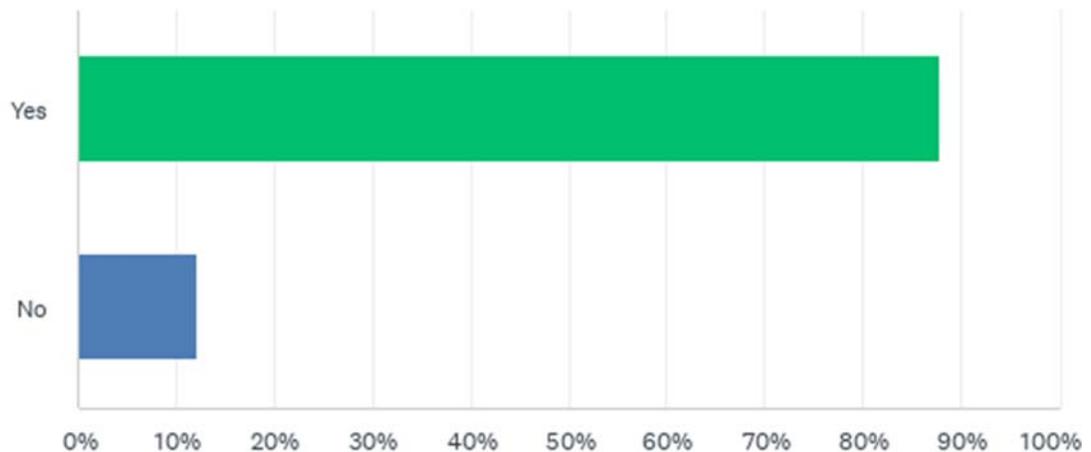
Many of the basic concepts used in the ISAs to support a risk-based approach were incorporated in the proposed standard. These include:

- Use of objectives to focus the auditor on understanding what needs to be

accomplished and concepts such as professional skepticism and professional judgment as a base for establishing the work effort of the auditor when performing an audit of an LCE

- The need to obtain sufficient appropriate audit evidence to support the audit opinion
- The use of materiality to focus the auditor's efforts and to evaluate misstatements; and
- Using the audit risk model, i.e. applying the concepts of inherent risk, control risk and detection risk.

The survey results indicated an overwhelming appreciation of this approach with about 98% of the respondents stating that they agreed with the approach. Below is the detailed presentation of members' responses.

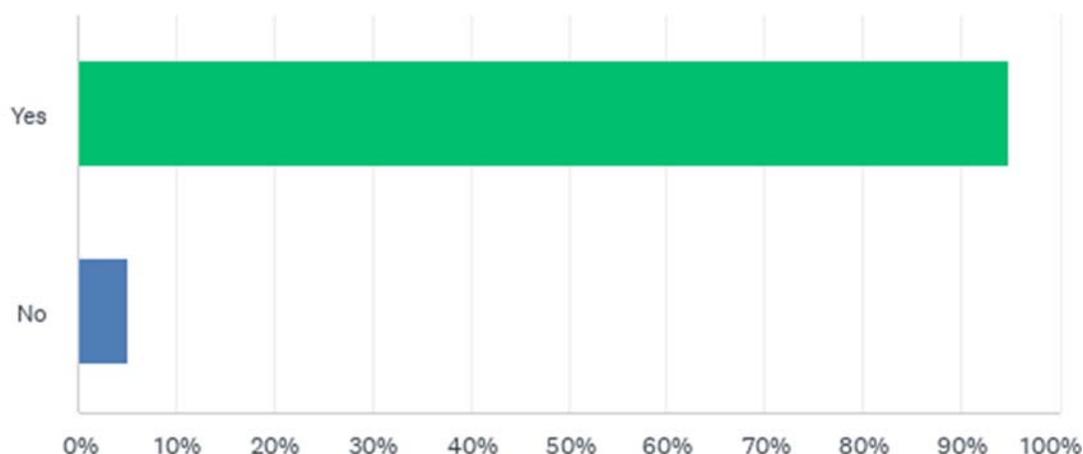


Qtn: To enhance its applicability to LCEs with a wide range of circumstances and across sectors or industries, the proposed ISA for LCEs utilizes a risk-based approach to audit, with requirements that are principles-based including:

- a) Using the core ISA requirements and concepts (such as professional skepticism and professional judgment) as a base for establishing the work effort of the auditor when performing an audit of an LCE;*
- b) The need to obtain sufficient appropriate audit evidence to support the audit opinion;*
- c) The use of materiality to focus the auditor's efforts and to evaluate misstatements;*
- d) Using the audit risk model, i.e. applying the concepts of inherent risk, control risk and detection risk.*

Do you agree with this approach? Survey responses collected August- October 2021, from ICPAU members, n=60.

The proposed standard still requires the auditor to plan the audit in the same manner, as the ISAs require the audit to be planned. However, the proposed standard has been modulated to not distinguish between the 'overall audit strategy' and the 'audit plan' as would be required by the ISAs. The survey results about 95% of the respondents agreed with this provision of the proposed standard. The graph below shows details of the respondents' views.



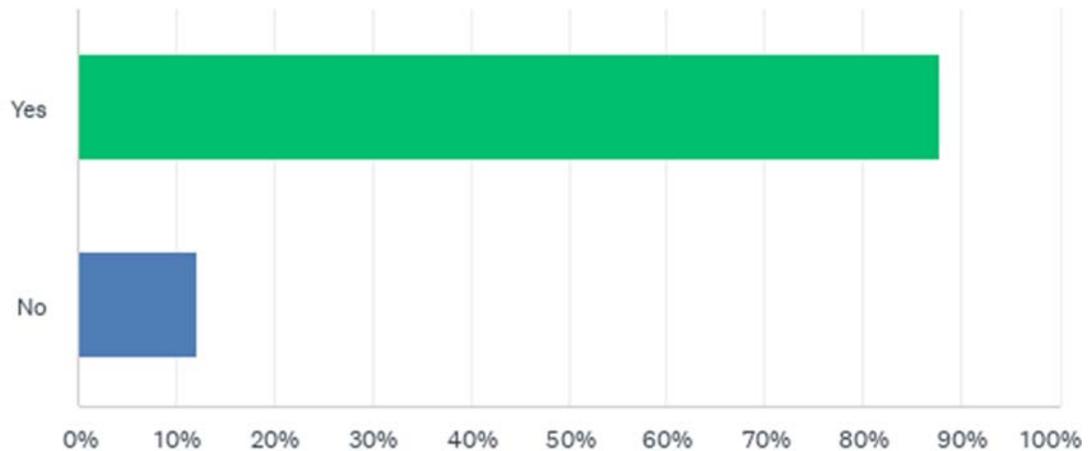
Qtn: The proposed ISA for LCEs still requires the auditor to plan the audit in the same manner, as the ISAs require the audit to be planned. However, the proposed standard has been modulated to not distinguish between the 'overall audit strategy' and the 'audit plan' as would be required by the ISAs. In doing so however, the relevant outcomes of what the auditor would need to with regard to establishing the overall audit strategy and audit plan have been incorporated (i.e. there is still requirement to establish and plan the scope, timing and direction of the audit).

Do you agree with this approach? Survey responses collected August- October 2021, from ICPAU members, n=60.

The auditor's report is the key communication to the intended user. The proposed standard is intended to produce auditors' reports that provide the same information as an ISA auditor's report. However, the key differences between an ISA for LCE auditor's report and an ISA auditor's (unmodified) report include:

- a) Within the basis for opinion and the auditor's responsibilities sections: the auditor's report refers to the report being conducted in accordance with the ISA for LCE.
- b) There is no ability to present the auditor's responsibilities elsewhere except in the body of the auditor's report.

The survey results showed majority of the respondents (88%) agreed with this approach in regard to reporting requirements in the proposed ISA for LCEs (see graph below for details).



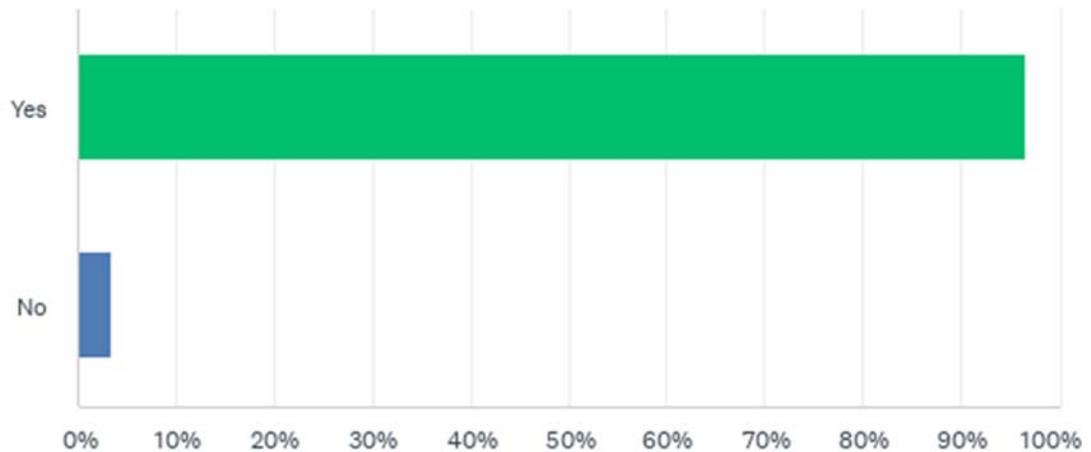
Qtn: The proposed ISA for LCEs recommends reporting requirements using the following approach:

- a) Providing a specified content and format for an unmodified auditor's report. Departures from the wording of report are not permitted except where required for compliance with law or regulation, or where the opinion or report needs to be modified in response to the specific engagement circumstances*
- b) Using tables to present requirements related to circumstances that may lead to the modifications of reports, and the text that may be used in the report when modifications occur*
- c) Using tables to present the form and content when using emphasis of matter, other matter, materiality uncertainty related to going concern and other information paragraphs*
- d) Including requirements in a standard text format where the presentation is not specified above*

Do you agree with the approach in regard to auditor reporting requirements in the proposed ISA for LCEs? Survey responses collected August- October 2021, from ICPAU members, n=60.

4.0 Conclusion and recommendations

The survey results indicated that majority of the respondents (97%) believed that the proposed standard will meet the needs of the users for which it has been developed. Details of the respondents' views are shown in the graph below:



Qtn: In your view, will the proposed ISA for LCEs meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion? (In other words, do you believe the proposed standard will meet the needs of the users for which it has been developed? Survey responses collected August- October 2021, from ICPAU members, n=60.

The respondents recommended that ICPAU should prepare implementation guidance material to support practitioners implement the standard once it is passed.