

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: Thandokuhle Myoli

Organization (*where relevant*): SAICA (REF#772133)

Country/Region/Jurisdiction: South Africa

General Comments on Proposed ISA for LCE

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

1. SAICA welcomes the opportunity to provide their input on the Exposure Draft: Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ED-ISA for LCEs, referred to in the rest of the comment letter as the “LCE standard.”)
2. In responding to this comment letter, a working group of SAICA studied and debated the LCE standard and prepared initial thoughts and input pertaining to the questions that have been posed. The working group comprised representatives from the audit firms, Auditor General of South Africa, local regulators, a local stock exchange as well as consulting firms. We requested members of the working group to provide additional inputs to the comment letter. In addition, SAICA participated in the IRBA’s LCE standard Task Group meetings where interested parties were invited to provide their views and comments in finalising the IRBA and SAICA comment letters.
3. As noted in the Background to the LCE standard, a number of jurisdictions have developed their own auditing standards for LCEs. This fragmented approach is not desirable for uniformity and comparability. The drafting of the LCE standard is an indication of the IAASB’s leadership role in standard setting and their willingness to address the public interest needs of the profession.
4. We commend the IAASB for their efforts in attempting to address the challenges faced by practitioners when applying the ISAs in the audits of LCEs. In recent years, due to corporate failures of public interest entities, regulatory inspections findings, the changing business environment and developments in technology and their impact on financial reporting, there has been a corresponding increase in the complexity of auditing standards as well. However, despite these developments in large and complex entities, audits of LCEs represent a significant proportion of audits conducted in South Africa and LCEs play a significant role in the growth and development of the South African economy. As a result of this economic significance of LCEs, it is important to address the perception that the requirements of the ISAs are excessive and onerous for LCEs.
5. It is crucial that the LCE standard has the same standing, relevance and applicability as any other standard in the suite of ISA standards and that this standard does not facilitate any differentiation between an audit of a LCE and an audit of a non-LCE. In our view, the purpose of the LCE standard should be to facilitate and provide requirements and guidance to auditors specific to audits of entities determined to be less complex in support of increased efficiencies, issuing of an audit opinion, providing reasonable assurance after taking into account the different and less complex nature and circumstances of a less complex entity being audited.
6. In South Africa, various legislations create exemption thresholds for audits. For example, certain legislations allow entities to perform independent reviews in accordance with International Standard on Review Engagements 2400 (ISRE 2400 (Revised)). However, even though such options exist, it still appears that entities are still opting to perform audits rather than independent reviews. There seems to be a lot of trust within the South African market in the current audit

product. Reservations were also raised that a separate LCE standard may be perceived as less robust than the current suite of ISAs. Therefore, it is important that the IAASB seek to understand the reasons behind these perceptions and outreach would need to be conducted to educate the users of the financial statements about the LCE standard. The auditing profession is currently undergoing a lot of public scrutiny as a result of the recent corporate failures, therefore, it is important that the expectation gap is not widened further which would be the case if there is a misperception that there are two types of audits that are not of the same quality. While we understand that the application of the LCE standard has no impact on the assurance obtained, it is our view that this may not be well understood by all users. The IAASB may have to engage with regulators to educate users in addressing such misperceptions.

7. In terms of the LCE Standard, “the draft standard may not be used for audits that are not audits of financial statements of LCEs. If the [draft] ISA for LCE is used for an audit outside the intended scope of this [draft] standard, compliance with the requirements of the [draft] ISA for LCE will not be sufficient for the auditor to obtain sufficient appropriate audit evidence to support a reasonable assurance opinion.” [Paragraph A.2]. South Africa has various entities that derive their existence from different pieces of legislation. There is a view that the audits of some of these entities may not necessarily be complex and that the LCE standard may be appropriate in conducting their audits. However, for some of these engagements, the auditor has to form an opinion based on a compliance framework rather than a fair presentation framework. SAICA’s view is that the scope of the LCE standard should be expanded beyond fair presentation frameworks, where applicable.
8. It is our view that not all group structures have public interest characteristics e.g. group of private entities that are owner managed, or a group with dormant entities within its structure. Therefore, the blanket prohibition applied to group audit engagements in the LCE standard is not reasonable and where the group structure is not complex, the LCE standard should be applicable.
9. In South Africa, some local software providers have already developed audit methodologies for LCE. We are of the opinion that engagements between the IAASB and such software providers (may also have global affiliations) would be beneficial to the IAASB to gauge how they have developed the methodologies based on the current suite of ISAs.
10. SAICA’s view is that the LCE standard is based on the principles of the ISAs and that there does not appear to be any reduced work effort for the practitioners that arises from applying the LCE standard. In this regard, we are of the opinion that consideration of the inclusion of the LCE standard as a special considerations standard in the main suite of ISAs would be more appropriate to assist auditors of LCEs rather than a separate stand-alone standard as the current draft is not detached from the ISAs. e.g. as a special considerations standard like ISA 600, Special Considerations – Audits of Group Financial Statements (including the work of component auditors).
11. Another aspect to consider is the impact of the LCE standard on the training environment for aspiring accountants. There is a significant number of firms in South Africa whose client profiles include few PIEs with a large proportion of LCEs. The introduction of the LCE standard would require such firms to maintain two audit methodologies and this could have cost implications for the firms. Globally, the audit profession faces the challenge of market concentration, specifically for PIE audits. Therefore, firms that are predominantly exposed to audits of LCEs may not develop the skills required to audit PIEs due to the lack of exposure in applying the ISAs. This does not help in addressing the challenges caused by market concentration. Such distinction may also begin to exist at the individual level where certain auditors only get exposure to audits

of LCEs and may not have the skills to apply the main ISAs. This may create serious competency challenges where due to some complexity the auditor may not use the LCE standard and is required to use the main ISAs. Such fragmentations, in general, are not beneficial to the profession, particularly in a country like South Africa where there are skills shortages.

12. The adoption of the LCE standard is dependent on the various jurisdictions across the globe, including the additional scoping requirements that they may impose. Therefore, there could still be a fragmented scenario where some jurisdictions adopt and others do not. It remains crucial that the IAASB continues to address complexity, understandability, scalability and proportionality in the main ISAs when drafting and revising standards. The importance of guidance documents also cannot be emphasised enough as these are of great assistance to practitioners.

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:

13. We agree with the standalone nature proposed in the LCE standard provided that there are clear distinctions from the ISAs. Positioning the LCE standard as a separate ISA for LCE makes it clear that it is separate from the ISAs and aims to address different scenarios to those envisaged in the ISAs. Referencing to the ISAs will create too much overlap and not meet the objectives of the LCE standard which is to ensure that auditors do not onerously apply the requirements of the current suite of ISAs where these are not proportionate to the LCE environment.
14. However, the ED in its current format reads like a summary of the requirements of the ISAs. There do not seem to be any major differences and it is unclear as to how one would audit differently from the ISAs. In our view a standalone standard should have discrete requirements and application guidance, to ensure that auditors do not default to the ISA application guidance when unsure of how to operationalise a requirement. We are also cognisant of the fact that the distinction between the LCE standard and the ISAs will become clearer in the future as revisions emanating from complex public interest entities are made to the ISAs.
15. Practical application of transition between ISAs and ISA for LCEs is unclear. The following question needs to be clarified in the LCE standard, *“Is it possible to transition from ISAs to ISA for LCE and vice versa and what would such a process entail?”*
16. Paragraph 26 states that, *“...if there is a circumstance that has not been contemplated in the design of ED-ISA for LCE as addressed in the Authority of the proposed standard (Part A), relevant ISA requirements cannot be used to “top-up ED-ISA for LCE in order to address the circumstance.”* If the auditor requires guidance in performing the audit using the LCE standard, they should still be able to rely on the principles contained in the main ISAs. This is similar to the approach followed when applying IFRS for SMEs. While there is no explicit requirement to use the main ISAs, auditors should be allowed to use the ISAs for guidance, particularly because the LCE standard is premised on the principles of the ISAs.

(b) The title of the proposed standard.

Response:

17. We agree that the title also helps to distinguish the standard from the regular suite of ISAs.

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

Response: No.

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:

18. Agree.

The following discrepancy has been noted in the Preface:

"P.2. Part A sets out the authority for this [draft] standard. A clear description of the types of entities for which an audit in accordance with this [draft] standard has been designed - as set out in Part A - is essential so that:

- The IAASB can decide on objectives and requirements for inclusion within the ISA for LCE that are appropriate for an audit of an LCE; and
- Legislative or regulatory authorities or relevant local bodies with standard setting authority (such as national standard setters or professional accountancy organizations), firms, auditors, and others will be informed of the intended scope of the [draft] standard."

Part A of the draft standard does not describe entities which the standard has been designed for, but rather, describes entities which may not use the standard. This wording should be updated for this.

"P.3. Descriptions of the type of entities for which an audit in accordance with this [draft] standard is permitted rest with legislative and regulatory authorities or relevant local bodies. Such descriptions may or may not align with the limitations for use as set out in Part A. The intended scope of this [draft] standard corresponds to the matters describing an audit of the financial statements of an LCE as set out in Part A and does not contemplate jurisdictional descriptions."

19. Part A does not set out requirements for an LCE but rather sets out where use of the standard would be inappropriate.

"P.5. If this [draft] standard is used for audit engagements other than those contemplated in Part A, the auditor is not permitted to represent compliance with the [draft] ISA for LCE in the auditor's report."

20. As per the above, Part A stipulates situations where the ISA for LCE cannot be used.

"P.16. This [draft] standard is relevant to engagements in the public sector if the criteria set out in the Authority in Part A have been met. The public sector auditor's responsibilities, however, may be affected by the audit mandate, or by obligations on public sector entities arising from law, regulation

or other authority (such as ministerial directives, government policy requirements, or resolutions of the legislature), which may encompass a broader scope than an audit of financial statements in accordance with this [draft] standard. These additional responsibilities are not dealt with in this [draft] standard. They may be dealt with in the pronouncements of the International Organization of Supreme Audit Institutions or national standard setters, or in guidance developed by public sector audit agencies.”

21. There is no criteria for LCE provided in Part A, but rather entities which do not meet the requirements. Therefore, the highlighted references do not seem to be appropriate.

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:

22. Partially. Due to the judgement involved in determining whether the LCE Standard may be used and the additional documentation requirements in reaching this conclusion, intended efficiencies envisioned by the LCE standard may be lost through this process. The judgement around qualitative factors will also lead to differences in practice, which could lead to auditors competing on an inappropriate basis due to opinion shopping by clients, which impacts ethical considerations as well. The Authority may also include consideration of time and effort, reporting framework applied, industry, etc. to promote consistency, and remove some of these concerns.

23. Consideration should be given to what an LCE is, rather than focussing on what an LCE is not, which would eliminate the consistency issue highlighted above.

24. The work being conducted by the IESBA relating to amendments to the Code of Ethics may also have an impact on the authority of the LCE standard. It is important that the LCE standard is aligned with the revisions made in this regard.

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

Response:

25. Inappropriate competition among firms may arise due to their different judgements used in reaching a conclusion on whether the LCE standard may be applied to the audits of their entities based on the qualitative considerations where they are not specifically excluded by the LCE Standard.

26. The impact of circumstances outside the control of the entity has not been factored into the standard. For example, the global COVID-19 pandemic created a lot of uncertainty and doubt about the going concern status of most entities. South Africa recently experienced riots that affected a lot of entities. As these situations are unexpected and are outside the control of the entity, the LCE standard needs to include considerations that address such situations. The

complexity that these situations pose may require that the auditor jumps between the LCE standard and the ISAs in different periods.

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

Response:

27. It is unclear whether the list of qualitative characteristics provided in paragraphs A8 and A9 is prohibitory or just indicators of a complex environment. E.g. the following is contained within paragraph A8:

*"If an audit engagement is not prohibited from use of the [draft] ISA for LCE as set out in paragraph A.7., **it would be inappropriate** for an audit of the financial statements of the entity to be undertaken using the [draft] ISA for LCE if the entity exhibits the following:..."*

Further below in paragraph A8: *"These are **indicators** of, or proxies for, matters or circumstances for which the [draft] ISA for LCE has not been designed to address."*

28. A similar contradiction has also been identified in paragraph A9:

*"In accordance with paragraph A.8., the [draft] ISA for LCE is **inappropriate** for the audit of the financial statements if an entity exhibits one or more of the following characteristics:"*

Further below A9: *"Each of the qualitative characteristics may on its own not be sufficient to determine whether the [draft] ISA for LCE is appropriate or not in the circumstances, **therefore the matters described in the list are intended to be considered both individually and in combination.**"*

29. An area that needs to be expanded on in the LCE standard is that of auditing opening balances where the ISAs were used by a predecessor auditor. Further non-authoritative guidance in this regard should be included in the area dealing with transitional requirements.

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

Response:

30. Partially. The IAASB will have to work closely with professional accountancy organisations and regulators to promote awareness of the Authority as such stakeholders may not be necessarily aware of IAASB activities and pronouncements.

- (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:

31. The proposed role of legislative or regulatory authorities is clear and appropriate. Differences in interpretation and implementation of the standard may arise in different jurisdictions resulting in a fragmented approach in terms of how the LCE standard is implemented. It is important that the IAASB engages with regulators in this regard to ensure that there is some level of consistency at the global level. Similar discussions may need to happen for public sector audits i.e. with Supreme Audit Institutions. Furthermore, various jurisdictions will have their nuances, therefore,

it is important that the LCE standard clarifies and allows local regulators to make the necessary changes to the scope of the LCE standard so that the standard may be implementable.

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:

(a) Specific prohibitions:

- 32. SAICA's view is that at a local level, the IAASB can engage with regulators and professional accountancy organisations to educate the profession and stakeholders on the underlying principle of '*less complex*' to ensure that the LCE standard is not perceived to be as an easier way of auditing that requires a reduced audit fee to be charged.
- 33. There must be a clear and definite link to the "definitions of "Listed entity" and "Public interest entity" as both these types of entities are prohibited from using the LCE standard. A suggestion is that both these definitions are included in the LCE standard and that specific examples be included in the EEM paragraphs making reference to listed and PIE entities. For these definitions and the link to be effective and supporting the appropriateness and relevance of this prohibition there must be consistency between the LCE standard and the definitions included in the IESBA Code of Ethics.
- 34. **Paragraphs A6 & A 7:** We agree with the principle of "specific restrictions" but these restrictions must be written in such a way that there are no loopholes and it must be clear which circumstances will not allow for the use of the LCE standard.
- 35. **Paragraph A 7:** Our suggestion that the "main function" be defined and linked to a specific measure [e.g.: 60% or more of the entity's activities = main function].
- 36. **Paragraph A 7:** Reference should be made to not only the LCE standard but to all ISA standards where it is specified by law and/or regulation that the audit is not to be performed in terms of the LCE standard.
- 37. Another prohibition that may possibly be included is where a bank or any other specified user for whose purposes an audit is performed specifies that the audit engagement should be conducted in terms of the ISAs.
- 38. With regards to the audits of group financial statements, it is our view that not all groups are necessarily complex. Simple groups that do not contain any complexities should be scoped into the LCE standard. Refer to our responses in Section 5.

Public sector considerations:

39. **Paragraph A5:** The specific prohibition quoted in this paragraph may result in challenges and inconsistencies when attempting to implement the standard in the public sector. The indicators of public interest in the proposed standard seem to be covering mostly public and private entities, therefore, different indicators of public interest for public sector entities might need to be considered.
40. There is a view that all public sector entities exhibit a level of public interest, however the number of stakeholders and the extent to which they are directly impacted by the services provided by the public sector entity can be considered in determining the level of public interest e.g. refer to inclusion in definition of PIE in IRBA code 400.8 “*Major Public Entities that directly or indirectly provide essential or strategic services or hold strategic assets for the benefit of the country*”
41. Although the classes of entities with public interest characteristics which are specifically prohibited as per par A7 are also entities that are likely to have complex transactions, jurisdictions or firms may interpret the prohibition in par A5 to also require the exclusion of public sector entities that do not have a significant impact on a large number of stakeholders, or have complex transactions and therefore preclude the use of the standard in the public sector.
42. The LCE standard should indicate that the prohibition is driven by the complexity that is brought about by certain public interest characteristics and not by the public interest characteristics themselves.

Proposed wording: *Entities that have public interest characteristics ~~and~~ that embody a level of complexity in fact or appearance ~~and~~ are specifically prohibited from using the [draft] ISA for LCE.*

(b) Qualitative characteristics

43. **Paragraphs A 9 – A10:** With the purpose of the LCE standard in mind [i.e. to simplify and increase efficiency and not to duplicate effort] as well as the extensive professional judgment that is to be applied in deciding on whether the use of the LCE standard is appropriate for a specific entity there could be a need to include another annexure to the LCE standard of a “qualitative characteristics” decision tree that is to be completed by the auditor as part of pre-engagement phase and on which it is concluded whether the LCE standard can be used or not. Such an annexure should allow for documented support for responses to the questions posed in the decision tree to each of the relevant qualitative characteristics.
44. In the South African context consideration would need to be given to aspects such as the calculated Public Interest (PI) score, i.e. a higher PI score (above a specified threshold) could potentially lead to a more complex entity. The criteria used by the local audit regulator (The Independent Regulatory Board for Auditors) for inspections on the annual Assurance Work Declaration to determine whether an entity is a high risk or a low risk can also be used. For example, the LCE standard could be prohibited for entities classified as high risk in the declaration and applicable for low risk entities.
45. Regulators in other jurisdictions may have similar requirements and assessments in terms of identifying high risk versus low risk audits and these principles may be included in the qualitative characteristics

46. Another consideration is the annual revisiting of whether an entity still “meets” the definition of a LCE and vice versa and the allowance for an auditor not to be prohibited from using the LCE standard if this standard could not have been used in the previous years on a specific entity as the nature and circumstances of an entity may change from time to time.
47. Entities trading in more than one currency or jurisdiction should also be considered as more complex, as per the list in para A10.
48. The LCE standard should also acknowledge dormant entities to be LCEs and to then further simplify the audit process with regards to dormant companies. Dormant entities are basically shells and have no activity or transactions. Practically, the engagement documentation could be reduced to a few working papers where the auditor corroborates that the entity’s status is indeed dormant and if corroborated then to only complete one planning, one fieldwork and one concluding working paper as no risks exist at a dormant company other than the reporting thereof in accordance with the relevant financial reporting framework.

5. Regarding the Authority Supplemental Guide:

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

Response:

49. Yes, however also refer to our response to Q3.

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

Response:

50. The Authority Supplemental Guide may need to be amended by the local regulators to take into account the different circumstances in various jurisdictions.

51. Also consider including guidance on the re-issuing of the financial statements as we note paragraph 106 (c) (on page 32) states the following:

Management amendments to the financial statements after the date of the auditor’s report—Detailed requirements relating to the reporting on, and distribution of, previously issued financial statements when financial statements are amended are not included because in most jurisdictions this is expected to be rare.

Our view is that although it is seen as rare, amendments to the financial statements after the audit report are not limited to complex entities only, and due to the nature of the standard being a standalone standard, we believe guidance around this should be included in the standard.

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:

52. The Authority indicates that the LCE standard does not make provision for the reliance on internal auditors. The IAASB should consider making such provision as the internal audit function is part of a good controls framework and is not necessarily an indication of complexity.

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:

53. SAICA agrees with the approach of using the risk based principles contained in the ISAs to obtain sufficient and appropriate audit evidence in order to provide reasonable assurance. The main area in which auditors want to see a difference when applying the LCE standard is in the level of documentation required. The standard could still contain more explicit requirements in terms of what documentation is not necessary when applying the LCE standard. It is not sufficiently clear where efficiencies may come from as the requirements seem to be very similar to the full ISAs, just with less guidance than what the ISAs give to applicants. This becomes important when taking into account regulatory inspections where findings are often raised for insufficient documentation i.e. where auditors have to document reasons why they have not performed certain procedures that they deemed as unnecessary in the context of the audit. Therefore, clear guidance on what needs not be documented when applying the LCE standard is required. This can be incorporated in the EEM section of the standard through specific examples and references instead of using generic terms..

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

Response:

54. We agree with the approach taken.

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

Response:

55. We agree with the approach taken.

- (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:

56. We agree with the approach to limit explanatory material to ED-ISA for LCE so as to prevent the standard from becoming too long. Following this approach would however then require a deep understanding of the ISAs, otherwise the requirements may be open to interpretation. However, it is also our view that such engagements will be performed by professional accountants subject to the IESBA Code and even stricter local Codes of Professional Conduct such as the IRBA Code

of Professional Conduct for Registered Auditors. These codes place a requirement to exercise professional competence and due care at all times. The firms that conduct LCE audits will also be subject to the Quality Management standards that come into effect from December 2022.

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:

57. We agree with the current structure of presenting the requirements according to the various stages of the audit process. This certainly gives context to where the requirements (of the different ISA's) fit into the bigger picture. The EEM paragraphs could give further distinctions in terms of the differences (particularly in documentation requirements) between a less complex entity and a complex entity.
58. Our view is that the distinction between the LCE standard and the main ISAs will become clearer over time as more changes addressing complex environments are incorporated into the ISAs. However, as the standard is drafted at the moment, there are no key differences between the LCE standard and the ISAs.

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:

Part 1: Fundamental concepts, general principles and overarching requirements

59. Paragraph 1.3: The following paragraph should be included as 1.3.1:

“The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements.”

60. Paragraph 1.2: **Relevant Ethical Requirements and Firm-level quality management**

This paragraph should follow after the **Overall Objectives of the Auditor section**. This flow will also be consistent with the flow of ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with the ISAs*.

61. Section 1.8 – the reference as to who forms the collective, *“Those Charged with Governance”* within the ambit of LCEs need to be made more relevant and applicable to LCE environment by removing references to governance bodies that will not ordinarily make up the governance structures of an LCE such as audit committees. Rather, the LCE standard should include references to governance bodies that are relevant to an LCE such as the owner who is also the only director. Emphasis must be placed on the inverse and inter-relationship between management and those charged with governance who, in a LCE setting, are mostly one and the same and cognisance must be taken of this specific characteristic of LCEs throughout this standard as a whole. An

example of where this approach may be followed is in the requirement for a management representation letter to be signed by both management and those charged with governance to be simplified to just signed by management and *those charged with governance where applicable*.

Part 2: Audit Evidence and Documentation

2.4 Procedures for obtaining audit evidence

62. There is no requirement that has been included in the LCE standard. Only the EEM paragraph has been provided. The flow of the LCE standard should be similar to that of IAASB pronouncements; i.e. Requirement followed by the standard. It has also been identified in other sections of the draft standard that the requirements follow the EEM; e.g. 1.5; 1.6; 2.3; 2.5.

63. The IAASB should consider incorporating the following paragraphs from ISA 230, *Audit Documentation*, to the LCE standard (probably as EEM paragraphs): *A4: The auditor need not include in audit documentation superseded drafts of working papers and financial statements, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for typographical or other errors, and duplicates of documents.*

A7: It is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file.

A19: The documentation requirement applies only to requirements that are relevant in the circumstances.

64. All three of these paragraphs highlight areas where the auditor's requirements with regards to documentation are made less onerous. This becomes even more important to highlight in the LCE standard where the focus is ensuring that the procedures performed are proportionate to the LCE environment.

65. Including these paragraphs will not detract from the overall objective when it comes to documentation which is set out in paragraph 2.5.1 of the LCE standard.

Part 3: Engagement Quality Management

66. Quality Management applies to all stages of the engagement. It is our view that Part 3 should precede the Audit Evidence and Documentation chapter. This will be consistent with the approach followed in the ISAs where ISA 220 precedes ISA 230. Quality management is also an iterative process throughout the audit engagement, therefore, consideration should also be given to including some of the requirements in the different sections of the draft standard.

67. Engagement quality is important, but due consideration is required if EQCR is indeed required on an LCE audit. Some of the firms that conduct the audits of LCEs are one partner practices and may not have engagement quality reviewers. Consideration needs to be given to the less complex nature and circumstances of a LCE which may include limited number of systems, processes and transactions etc and the fact that a lot of LCE audits may be carried out by one engagement partner. In such an environment, the requirement to have engagement quality control reviews may be an exception rather than a norm. Therefore, our view is that the LCE standard should be written

for the expected circumstances in an LCE audit and the EQCR requirements be included in the EEM paragraphs.

68. Firms that perform audits of LCEs often outsource the function of monitoring and remediation of quality to external consultants. The LCE standard should address those particular circumstances where this function is outsourced and what the considerations should be when appointing the consultants. Some of the firms may not have resources dedicated to quality management. It would be useful if the LCE standard made reference to some of the mechanisms that smaller firms may employ for monitoring and remediation; e.g. making use of regulatory inspection findings reports to identify areas of improvement, training interventions by senior staff etc, review of engagement files by other partners within the firm or external consultants.

Part 4: Acceptance or Continuance of an audit engagement and initial audit engagements

69. The content of Part 4 of the LCE standard is materially complete and appears to have been refined to be shorter and more easily readable.

70. The changes made to accommodate for LCE pertain to matters that the IAASB viewed as “unlikely” in the context of an LCE.

71. Fundamentally, we agree with the proposed changes in respect of acceptance and continuance considerations, except for:

- The removal of the considerations that relate to additional requirements by Laws & Regulations for reporting (over and above the financial reporting framework) may actually be more common than the IAASB have envisaged. Whilst this can be managed through jurisdictional add ins, where there are matters which the IAASB thought to be uncommon would be added jurisdictionally by many countries, it may indicate that the provision should be scoped back in. Additional laws and regulations requirements do not necessarily indicate complexity.
- The standard may be enhanced by including the “scoping” provisions or definitions for when an engagement may or may not fall into the scope of LCE in the section where the auditor will consider these, with additional explanatory examples.
- There is insufficient guidance in this part (as opposed to the memorandum for the standard) on implementing transitional requirements between ISAs and the LCE standard. In South Africa, especially, we may have these scenarios as the Public Interest Score of audit engagements fluctuate. Therefore, the requirements in Part 4 should consider the possible scenario where the LCE standard may no longer be applicable and the need to transition to the ISAs arises. In this regard, the IAASB should also consider implementation guidance using examples from various jurisdictions.

Part 5: Planning

Engagement Team Discussion

72. The Section 5 introductory paragraph regarding the content of this section refers to “an engagement team discussion”. Similarly, the Section 6 introductory paragraph regarding the

content refers to “auditor’s obligations for planning activities, including the requirements for the engagement team discussion”.

73. Paragraph 5.2.6 only requires the engagement partner and other key engagement team members to have these engagement team discussions. The engagement partner is required in terms of paragraph 5.2.7 to determine which matters are to be communicated to those members who were not involved in the discussion.

74. Based on the importance of the matters to be included in the engagement team discussion, being how and where the entity’s financial statements may be susceptible to material misstatement due to fraud, including how fraud may occur, and how fraud or error could arise from related party relationships or transactions, we are of the opinion that the engagement team discussions should not be limited to key engagement team members but should require all engagement team members to attend the engagement team discussions. If all engagement team members are not present at the engagement team discussions, the engagement partner should be obligated to communicate certain information to engagement team members who were not required to attend these discussions.

Using the Work of Management’s Expert

75. The engagement team is required to evaluate the appropriateness of the expert’s work as audit evidence for the relevant assertion. We are of the opinion that consideration should be given to the inclusion of the relevant application material pertaining to this evaluation as guidance in the ED-ISA for LCE.

Materiality

76. Paragraph 5.3.1 EEM: amend the reference to the ‘*financial needs*’ of the users of the financial statements to the ‘*financial information needs*’ of the users of the financial statements.

77. Paragraph 5.3.1 EEM refers to “*Profit before tax from continuing operations is often used for profit-oriented entities. When profit before tax from continuing operations is volatile, other benchmarks may be more appropriate, such as gross profit or total revenues.*”

78. The appropriateness of including this statement should be reconsidered. It may be misconstrued as the default benchmark for profit-oriented entities and may thus limit the application of professional judgement by the engagement partner regarding the benchmark to apply in the specific circumstances of the entity.

79. ISA 320, *Materiality in Planning and Performing and Audit*, in our view, needs to be revised to provide improved guidance to auditors on aspects such as performance materiality and determining the percentage that is applied to the chosen benchmark. In our comment letter on the IAASB Workplan for 2022-2023, we had noted this standard as needing urgent revision.

Part 6: Risk identification and assessment

80. The risk assessment process is one of the most fundamental aspects of an audit engagement, therefore, significant benefits may be derived in making this section proportionate to the circumstances often encountered in LCE audits. ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, only came into effect in December 2021. The challenges with regards to the implementation of this standard in the LCE environment will be unravelled in the near future. Therefore, as part of its post-implementation activities, the IAASB should identify the challenges faced by auditors of LCE when applying ISA 315(Revised 2019) and make the necessary amendments in the LCE standard as a response.

81. Certain aspects within the LCE standard need to be tailored to the LCE environment. One of these is the area of evaluation of the control environment. The specific focus of the profession and of auditors of moving away from a fully substantive audit approach to a combined audit approach will, in all probability, be inappropriate in the audit of LCEs and this message should be emphasised more throughout this standard and more specifically so, as part of the planning, the risk identification and assessment and the responding to assessed risks of material misstatement parts of the LCE standard.

82. Given that the control environment in LCE environments is usually simple, some of the requirements with regard to the evaluation of the control environment can be removed from the LCE standard. Therefore, the requirement contained in paragraph 6.3.14 to perform design and implementation testing for **each** of the controls listed may be too onerous in an LCE environment as the auditors may either not be able to conclude that there are controls that are appropriately designed [i.e. addressing one or more of the control objectives / assertions] or due to the “inherent” lack of segregation of duties and the informal nature of the systems, business process and controls in place, the auditor’s assessment of the control risk will, in all probability be concluded to be high with the resulting impact being that no reliance can be placed on controls and thus that a fully substantive audit approach being followed.

83. The auditors should be required to understand and consider the implications of some of these control activities instead of the requirement to evaluate the controls. It is our view that ‘understanding’, in these cases may be obtained through inquiry alone.

84. The IAASB should consider including the internal audit considerations as this might be relevant for LCEs as well, and as such, the auditor needs to consider it during the risk assessment process. Internal audit considerations should also be included in the standard as there may be some non-complex entities that have internal audit services rendered to them due to requirements by the holding company etc. In such situations, the work of internal audit will need to be considered by the external auditor. Reliance on direct assistance from internal auditors can also be considered for less complex entities.

85. Given that the LCE environment may not contain complex transactions and processes, there may be a need to revisit the assumed significant risk due to the potential for fraud pertaining to revenue recognition for some of the assertions. Consideration must be given to the possibility of removing the requirement for a documented rebuttal for some of the assertions.

86. Given the fewer transactions in an LCE environment, LCEs also have less complex accounting estimates and due consideration must be given to the necessity of the ISA 240 requirement of having to include accounting estimates (due to the complex nature of estimates) in the auditor’s assessment of the risk around management’s override of controls.

87. Par 6.5.11: *The engagement partner shall evaluate whether the ISA for LCE continues to be appropriate for the nature and circumstances of the entity being audited.*

The re-evaluation throughout the audit of the applicability of the use of ISA for LCE may result in a possible withdrawal of its use and will be onerous if this is the case, as the auditor will have to revert back to the ISAs, putting undue pressure on the efficiency and effectiveness of the audit process. Applying the main ISAs from the beginning of the engagement may end up being more efficient than the application of the LCE standard in these situations.

88. Part 7 has included the relevant requirements from ISAs 240, 250, 265, 330, 402, 450, 500, 501, 505, 520, 540, 550, 570 and 620 relating to responding to the various risks which are identified during an audit engagement.

89. For the most part, the requirements in these ISAs have been condensed and combined into bullet points in one overarching part, which allows for easier reading and application of the requirements of all the standards noted above.

90. Lengthy descriptions from the original ISAs have been removed, but the procedures required to be performed by auditors have not been lessened in any form.

91. Below is a list of comments in relation to Part 7:

- The first section is numbered as 7.1.2, but should be 7.1.1
- The responses to risks of material misstatements due to fraud and error have been combined where appropriate.
- A potential area that the LCE could address is where a balance is quantitatively immaterial but there is a risk of material misstatement on a specific assertion. The question arises whether one can only raise a risk and respond to that assertion, or whether all assertions need to be tested on this account balance as a result of potentially one qualitatively material matter impacting one assertion. This interpretation is currently unclear in the ISAs and there may be room to provide clarity in the LCE standard, or deviate from the ISAs and allow the auditor to use judgement to test only specific assertions that result in the balance being considered material (assuming not quantitatively material and therefore not requiring all assertions to be assessed). ISA 330, *The Auditor's Responses to Assessed Risks*, paragraph 18 currently states, "Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure." The LCE standard could possibly deviate from this ISA requirement.
- The requirements for auditors to determine a suitable substantive analytical procedure differ slightly. Taking account of risks of material misstatement and other tests of detail have been removed (ISA 620 para 5(a))
- For substantive analytical procedures – the requirement to assess the variance/misstatement in aggregation with other misstatements has been removed (ISA 620 para 5 (c))

92. The IAASB should consider the probable impact of the nature of accounting estimates pertaining to LCEs being less complex on the applicability and relevance of all of the ISA 540(Revised) requirements on the audits of LCEs.

Part 8:Concluding

93. Some of the requirements and application material contained in ISA 560, *Subsequent Events*, have not been incorporated in the LCE standard. An example that may also be relevant in an LCE environment relates to requirements that should be performed by an auditor when facts become known after the financial statements have been issued and management fails to take the

necessary steps to inform those that were in receipt of the previously issued financial statements and do not amend the financial statements as required by the auditors (ISA 560 from paragraph 17). Furthermore, no guidance is included for the cases where management agrees to amend the financial statements (ISA 560, paragraph 15-16).

Appendix 4 – Assertions

94. We agree that the assertions for ISA for LCEs should remain the same as the ISA assertions, as the objective of providing reasonable assurance based on the procedures performed also remains the same.

Appendix 5 – Illustrative Engagement Letter

95. To perform an audit using ISA for LCE entails the same outline and structure as the audit of a non-LCE. Likewise, the amount of audit work performed using ISA for LCE versus ISAs (using the scalability considerations) should be exactly the same if applied to the same client (in theory).

96. There is a risk that if the engagement letter states that the audit has been performed in accordance with the LCE standard, users of the financial statements may perceive the LCE standard as providing a reduced form of assurance than the ISAs, which is not the case. Therefore, to correct this misperception and to educate the users, a paragraph should be included in the engagement letter indicating that the application of the LCE standard results in the same reasonable assurance that would have been provided had the auditor applied the ISAs.

97. This approach may lead to the users of the financial statements and auditor's report understanding that the LCE standard is of the same standing as the ISAs.

98. Other than the suggested change above, there is no need to have a different illustrative letter. We recommend the use of the same illustrative letter/s provided in ISA 210, *Agreeing the terms of Audit Engagements*.

Appendix 6 – Illustrative Representation Letter

99. With the objective being the same as for any other audit, the management representation letter should remain the same as any other management representation letter.

Illustrative Auditor's Reports

100. To add to the comments made above as to the reasonable assurance provided by an audit of an LCE being the same as the audit of a non-LCE, there may be a need to include a paragraph indicating that the ISA LCE standard provides a similar level of assurance as an ISA audit as they both provide reasonable assurance, with the only difference being that the LCE standard is tailored for the audits of LCEs. With regards to all the other components of an auditor's report, the auditor's report for an LCE audit should be the same as for any audit of a non-LCE where the ISAs were used.

101. There is no need for different audit report templates. The same audit report templates that are currently included in the suite of ISAs should suffice.

10. For **Part 9**, do you agree with the approach taken in ED-ISA for LCE with regard to auditor reporting requirements, including:
- (a) The presentation, content and completeness of Part 9.
 - (b) The approach to include a specified format and content of an unmodified auditor's report as a requirement?
 - (c) The approach to providing example auditor's reports in the Reporting Supplemental Guide.

Response:

102. Refer to our comments in question 9 on the Illustrative Auditor's Reports.

103. In general, SAICA is of the view that the format and structure of the auditor's reports should be similar for the LCE standard and the ISAs. This sends a consistent message to the users and will help in addressing misperceptions that different types of assurance are provided. The tabular presentation of the modified opinions is neat and may be easy to understand for most practitioners.

104. Providing the supplemental guide helps reduce the LCE standard but there is a risk that auditors may not make adequate use of it given that the guide is non-authoritative. A more suitable location could be the Appendix to the LCE standard.

11. With regard to the Reporting Supplemental Guide:

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

Response:

105. The material is helpful. We are however, not convinced that a non-authoritative supplemental guide is the suitable place to locate the guidance. Including the examples of the auditor's reports in the Appendix to the LCE standard may be more appropriate.

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

Response:

106. No other matters identified.

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:

107. None, other than the responses provided in question 9-11 above.

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:

108. Extensive guidance is required on when the LCE standard may be used and when it may not be used to avoid the need to transition back to the ISAs. Guidance should also be provided on how the engagement letter should be drafted in order to address those circumstances when the auditors may need to transition from the LCE standard to the ISAs.

109. Guidance is also needed on who makes the decision to make use of the standard; i.e. is it the client or the auditor.

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

Response:

110. Non-authoritative guidance should be issued by the IAASB to address the issues above, including templates that may be used by the practitioners. Local regulators would also need to educate the market in terms of their requirements when it comes to documentation in order to maintain audit quality for LCE audits. Non-authoritative guidance should also be prepared for the users as there may be certain expectations regarding less work effort, therefore reduced audit fees. The users need to be educated that the use of the LCE standard does not necessarily result in less work performed by the auditors.

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

Response:

111. Yes, however, only those changes that are applicable in the LCE environment should be incorporated in the LCE standard. As mentioned in our general comments section, a lot of the changes that have been made in the ISA are driven primarily by developments in PIE audits, therefore these may not necessarily be applicable. As part of the IAASB's consultation process for new and revised standards, standard questions will need to be included on whether proposed changes should be incorporated in the LCE standard. This may also require more SMP representation on IAASB project groups to ensure thorough consideration of the views of the SMP sector.

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

Response:

112. Yes. For revisions also affecting the ISAs, early adoption in the LCE standard should be allowed only if early adoption for the applicable section of the original ISAs is allowed. Otherwise, early adoption should not be allowed as this may lead to confusion for teams who may be working on multiple engagements with both suites of ISAs. Only for amendments made solely to the LCE standard, should early adoption be considered independently.

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

Response:

113. Yes, it would be useful to include a separate section on the ISA-800 series to provide more details about special audit considerations, with the exception of ISA 810 (Revised), *Engagements to report on Summary Financial Statements*, as this is unlikely to apply to LCE audits.

114. Consideration should be given for ISA 800 to be included so that the LCE standard may also be applied at audits of entities who prepare financial statements on special purpose frameworks. The types of entities may fit the LCE criteria and considering that the LCE standard may not be used in conjunction with the ISAs, not including ISA 800 may preclude the use of ISA for LCE at these types of entities. In South Africa for example, the audit of certain schools would be audited using a special purpose framework. These audits are not necessarily complex and the transactions would be relatively routine. In such scenario, the use of the LCE standard would make sense.

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:

115. The standard can be used. Currently audits for LCEs are already performed using the ISAs without the more complex requirements that are not applicable in these types of environments. This is also due to software providers that have already tailored audit software to consider the size of the entity, industry etc. The potential benefit of having an international standard guiding the audit of LCEs is still recognized in that there will be more consistency in how different firms adapt the ISAs to less complex environments and it will be easier to develop, adapt and update firm methodologies for less complex auditees. However whether or not the standard will be used will depend on the final version of the standard and how all the comments have been taken into account.

116. How the LCE standard is used will also be based on what the local regulators decide. To achieve the uniformity that the IAASB desires at a global level, extensive consultation with local regulators will need to be made, including global organisations like IFIAR.

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

Response:

117. Yes. The LCE standard is based primarily on the ISAs which have already been proven to meet the needs of auditors, auditees, users of financial statements and other stakeholders. The use of the ISA for LCEs will continue to achieve this purpose.

Other Stakeholders: Companies and Intellectual Property Commission (CIPC)

118. The South African Companies Act, 2008 (as amended) provides for the entities (depending on their public interest score) to independently review their annual financial statements instead of an audit. It was observed that even though the Companies Act introduced the independent review (in accordance with ISRE 2400) with the intention to reduce the regulatory burden and ease of doing business in South Africa, independently reviewed annual financial statements are not widely accepted by the banking institutions and other business investors. Audited annual financial

statements still remain as the preferred choice that provides the required level of assurance for these stakeholders. Therefore, the view from the local companies regulator, CIPC, is that there is a need for this kind of new proposed standard of ISA for LCE provided that it is not seen to be an inferior type of audit and a method of reducing fees.

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

Response:

119. Firms may have to have to develop two audit methodologies, based on the ISAs and the LCE standard. This could be costly for firms that may not have access to global networks to assist them in developing the methodologies. In all likelihood, they may have to end up obtaining the services of consultants and software providers. Additional costs include training that will need to be conducted as well as updates to the firms' quality management processes and procedures. It is unlikely that these costs will result in any financial benefits for the firms if there is no reduction in the work effort as a result of using the LCE standard. Therefore, it is important that the IAASB provides adequate implementation guidance to assist those firms that may not have the necessary resources to reduce the additional costs.

120. When engaging with the auditors and stakeholders, it is important that the IAASB provides education on the public interest benefits of adopting the LCE standard.

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:

121. None identified.

Section 4G - Approach to Consultation and Finalization

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

Response:

122. Support and guidance regarding:

- Transitional arrangements (from ISA to LCE and back), including the audit of opening balances where there has been rotation of auditors.
- Qualitative characteristics (as application may be subjective)
- Challenging areas noted above
- Where components use ED-ISA for LCE. Also refer to our comments in question 26 regarding guidance for group engagements.

123. Support and guidance would also need to be issued by local Regulators on jurisdictional interpretation and changes made.

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:

124. We did not use a translated version, therefore no comment.

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:

125. Consideration should be given to the new and revised standards becoming effective over the next two years for example the Quality Management Standards, ISA 315 (Revised 2019), ISRS 4400 (Revised) etc. We recommend that the ISA for LCE only becomes effective 18 months after the approval of a final LCE standard. It would be beneficial to allocate more rather than less time for the transition as this is an entirely new standard. Jurisdictional changes may also take a very long time to finalise as regulators have their own due processes to follow.

126. The option to early adopt should be allowed for audit firms ready for the adoption and the mandated effective date should be extended to at least 18 months after the final standard has been approved. Allowing less time may result in inappropriate decisions and assessments regarding the use of the ISA for LCE.

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:

127. The majority of the members in the SAICA task group were of the opinion that group audits should be included as not all group structures and/or group transactions can be considered to be complex (for example closely held companies)

128. Other members were of the view that a group audit cannot be conducted using this draft as per para A7(d). When a group is involved, the risk of misstatement due to various dealings, intercompany transactions, year-end differences etc. is too high that a group can be considered as a non-complex environment. It must also be considered that, if ISA for LCE is used at a subsidiary level, what additional procedures will be required at a group level to ensure compliance to all ISA requirements.

129. ISA 600 (Revised) has now also been finalised. Based on this revised standard, if the financial information of an entity includes the financial information of branches and divisions through a consolidation process, then those financial statements are group financial statements. ¹ This is

¹ ISA 600 (Revised), Special Considerations – Audits of Group Financial Statements (including the work of component auditors), paragraph 14(k)

clearer compared to the extant standard where there have been different interpretations about the applicability of ISA 600 to certain group structures, particularly branches and divisions. Therefore, simple group structures may also prepare group financial statements. It is SAICA's view that such simple group structures (constituted of LCEs) should be included in the scope of the LCE standard.

130. Also, consideration should be given to where a subsidiary can be audited using ISA for LCE in one jurisdiction but a subsidiary in another jurisdiction is not allowed to be audited using ISA for LCE. For the group auditors this could be complex to manage and difficult to place reliance on some of the audit work done on subsidiary level. In this regard, due to the different jurisdictional laws and regulations that may apply to the group, such groups should be excluded in the scope of the LCE standard due to the complexity that arises. Furthermore, clarity should be given as to how the group opinion may look if subsidiaries use the LCE standard. Additionally, what considerations may be applicable to group scoping and referral instructions based on the final LCE standard if there are a number of differences from the full ISAs

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:

131. The majority of the members in the task group were of the opinion that there are many simple groups in South Africa and that it is not appropriate to scope all group audits out. From a public sector perspective, the standard would still be useable with groups excluded, as the majority of South African public sector entities are not groups, and those that are groups are generally complex and would be outside of the scope of this standard in any case.

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:

132. From a public sector perspective, less than 5% of all auditees (response from the AGSA representative on the task group).

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

Response:

133. In the local government sphere in South Africa, certain municipalities have entities that are structurally under their administration, so these municipalities would therefore be required to prepare consolidated financial statements. The consolidation of these groups would be considered less complex as there are limited intergroup transactions and these transactions are typically not complex in nature.

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:

134. We propose a compromise combination of options a and b to limit the amount of judgment required. Limited specific proxies could be used if they are considered as definite indicators of complexity, together with other qualitative factors. This is consistent with the approach used to scope in LCEs in the proposed standard.

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:

135. No. Other indicators for complexity may include:

- Cases where there are restrictions on access to people or information (whether such restrictions have been imposed by group management or outside of their control).
- Cases where entities in the group have non-conterminous year ends.
- Cases where entities within the group have inconsistent accounting policies.
- Cases where entities within the group report in different currencies.

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:

136. Option (b). Group specific requirements should be incorporated within each relevant part. This will make it easier for the auditor to apply to each stage of the audit as it progresses. It will also go well together with the already determined flow of the ISA for LCE.

137. In addition, the IAASB could consider supplementing the LCE standard with implementation guidance for group engagements. Such guidance could expand more on the qualitative considerations for complexity, over and above the proxies for complexity agreed upon by the IAASB.