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7 February 2022

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Mr Willie Botha  
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Dear Willie

**Comments on the Proposed International Standard on Auditing (ISA) for Audits of Financial Statements of Less Complex Entities (ISA for LCE)**

The Independent Regulatory Board for Auditors (IRBA) is both the audit regulator and national auditing standard setter in South Africa. Its statutory objectives include the protection of the public by regulating audits performed by registered auditors, and the promotion of investment and employment in South Africa. Its statutory Committee for Auditing Standards (CFAS) is responsible for assisting the IRBA to adopt, develop, maintain, issue and prescribe auditing pronouncements.

We acknowledge the efforts and support of Board members and staff of the IAASB in outreach efforts to South Africa during the exposure period. We found these interactions to be valuable.

We appreciate this opportunity to comment on the proposed ISA for LCE (proposed standard), developed by the International Auditing and Assurance Standards Board (IAASB).

Our comments have been prepared by a CFAS task group that comprises representatives from large firms, small and medium-sized firms, consultants, regulators, the South African Institute of Chartered Accountants and the Auditor-General South Africa (AGSA). The comments are presented under the following sections:

A. General Comments; and

B. Specific Questions and Responses.

In our comments, when commenting on the wording of specific paragraphs words ~~struck through~~ should be deleted and words underlined should be added to the text of the proposed standard.

Kindly e-mail [ychoonara@irba.co.za](mailto:ychoonara@irba.co.za), or phone him directly on +27 87 940 8867, if further clarity is required on any of our comments.

Yours faithfully,

***Signed electronically***

**Imran Vanker**

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## A. GENERAL COMMENTS

1. Overall, the IRBA is supportive of the development of a proposed standard that recognises the needs of auditors who perform audits of less complex entities and recognises that a globally consistent approach is needed, especially since several jurisdiction-specific LCE standards or related initiatives are arising or being used already. This is key to avoid inconsistencies in quality and confusion for users of not only the proposed standard itself but also users of the audited financial statements of LCEs. It was important for the IAASB to issue the proposed standard on exposure to obtain feedback from stakeholders such as the users of financial statements; preparers of financial statements; legislative or regulatory authorities; relevant local bodies with standard-setting authority; as well as auditors and audit firms, to determine what their needs are and whether the proposed standard is fit for purpose.
2. We acknowledge the IAASB's objective of fast-tracking the development of this auditing standard, due to the need for a consistent solution. However, we do encourage that the IAASB should balance speed with a careful consideration of the feedback received from respondents or stakeholders who will be using the proposed standard, and take meaningful measures to respond to their inputs and concerns in finalising the proposed standard.
3. We suggest that the IAASB considers the following issues/concerns, as it continues with finalising the proposed standard. These high-level issues/concerns are both regulatory in nature as well as informed by insights gained from practitioner inputs:
  - The issuance of a separate standard for LCEs does create the perception for some users that two different categories of audits exist, with different levels of assurance and quality and differences in audit work performed. These expectations cannot be bridged through education or awareness-raising efforts.
  - Expectation from audit clients to see a reduction in audit fees arising from using the proposed standard, which may not be the case, especially for audit firms that have been using audit methodologies tailored for an LCE. These expectations also cannot be bridged through education or awareness-raising efforts.
  - The authority of the proposed standard is subjective and not capable of consistent interpretation (e.g. the use of a qualitative characteristic as outlined in paragraph A.9 of the proposed standard). From an external inspections and regulatory perspective, this may result in frequent regulatory or quality inspectors challenging the decision of audit firms on whether the use of this proposed standard is appropriate. This might lead to a potential audit engagement file failure, thereby potentially creating fear of using the proposed standard by audit firms. The implications of using the incorrect standard are unprecedented and not catered for in the IAASB frameworks.
  - A concern/challenge noted by stakeholders is the length and volume of the ISAs and the difficulty for auditors of less complex entities to navigate the full set of ISAs when performing an audit. As such, one of the objectives of this project was to issue a proposed standard that is shorter. However, the proposed standard is over 100 pages in length, excluding the glossary of terms, the various supplemental guidance material already developed and the additional implementation and support material still to be developed. This is a real and practical concern. Will the proposed standard address the need it was developed to address?
  - That said, it is unclear how an auditor of an LCE will be able to understand and apply the proposed standard without a full understanding of the ISAs. The explanatory materials don't address this fundamental issue seriously or clearly. It is therefore encouraged that the IAASB

considers providing support material to indicate the key differences between the proposed standard and the ISAs, as the complexity of the mapping documents make them difficult to navigate.

- Also, additional supplemental guidance material will be needed, as noted in our responses below, to provide further explanation of the requirements and guidance for carrying them out. However, there is a concern that the IAASB may not have the time and resources to issue supplemental guidance material timeously after the final standard has been issued.
  - The potential impact on the following:
    - The recruitment of trainees for an audit firm that has a significant number of LCE audits, or has a department dedicated to the audit of LCEs, would be handicapped. Trainees regularly indicate a preference to receive their initial training in large environments, where the ISAs would be the norm.
    - Career progression and mobility of individuals that completed their training at audit firms that only or mainly perform LCE audits would be hampered.
    - Audit quality, for example, when an audit firm that mainly performs LCEs audits is engaged to perform an ISA audit, and the audit staff/team members have not been appropriately trained nor have the necessary experience to perform an ISA audit, and/or the audit firm does not have the appropriate quality management systems in place.
  - Unfortunately, what remains unclear is whether the objective of the project has been met by the current proposal. It is not clear what the benefits of using the proposed standard would be in comparison with applying the ISAs, as one would expect the procedures applied using the ISAs to be scaled down, based on the nature and environment of the audit client being similar, if not the same. Further, many audit firms indicate that they now have tailored methodologies to be used for an LCE audit. It is therefore unclear as to how an audit performed using the proposed standard would differ from these methodologies that have already been developed.
4. Coordination with other standard setting boards. The IAASB's initiative takes place in an ecosystem where accounting standard setters may also be thinking about differential reporting, or improving and refining differential reporting standards where they already exist. We are aware that differential reporting projects may be underway or being considered at the International Public Sector Accounting Standards Board (IPSASB) and the International Accounting Standards Board (IASB), although they may not describe them as LCE accounting standards. For this reason, it will be useful to understand the broad scope and exemptions being considered for those standards, and how such potential future changes may align with the proposed scope of the LCE standard. This is especially relevant where the disclosure requirements for certain types of subsidiaries may be tailored in future.
5. It is acknowledged that ISAs have become increasingly complex over the years, in particular as they relate to complexity, understandability, scalability and proportionality for all audits. Some of the auditors represented on the LCE task group suggest that as an alternate approach to the proposed standard, the IAASB rather focuses on the second workstream of the project that relates to developing drafting principles for the ISAs, in order to reduce complexity and improve understandability, scalability and proportionality of the ISAs (the CUSP project). ISAs that have been recently issued – such as ISA 315 (Revised)<sup>1</sup>, ISA 540 (Revised)<sup>2</sup>, and the new and revised

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<sup>1</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatements*.

<sup>2</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*.

Quality Management Standards<sup>3/4/5</sup> – contain application material to assist in the audit of less complex entities as well as more complex entities. In a similar approach, the IAASB, through the CUSP project, can update the ISAs to ensure that they are suitable for application to the audit of LCEs.

6. Comments on the Preface of the proposed standard

- We recommend that consideration be given to revisions of paragraphs P2, P3 and P6 of the Preface:

- Part A of the proposed standard does not describe the entities that the standard has been designed for; rather, it describes the entities that may not use the proposed standard.
- Editorial recommendation to paragraph P2:

*Part A of the proposed standard describes "... the specific prohibitions and qualitative characteristics that will make the [draft] standard inappropriate for use in an audit of the financial statements of an LCE ..."* (extract from paragraph A1 of Part A of the proposed Standard). It does not provide a "... clear description of the types of entities for which an audit in accordance with this [draft] standard has been designed ...":

*"Part A sets out the authority for this [draft] standard. A clear description of the specific prohibitions and qualitative characteristics that will make the [draft] standard inappropriate for use in an audit of the financial statements of an LCE ~~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: ..."*

- Editorial recommended to paragraph P3:

Paragraph P3 is misleading and contradicts paragraph A11 when read with paragraph A6-A7 of Part A. This should be replaced with paragraph A11 or an iteration thereof.

*"As part of the local adoption and implementation process, legislative or regulatory authorities or relevant local bodies with standard-setting authority may:*

*(a) Modify, but not remove, the classes of entities in paragraph A.7.(c)(i)-(iv) by, for example, applying quantitative criteria to a class or otherwise modifying as set out in paragraph A.6.; or*

*(b) Further limit use of the [draft] standard in paragraph A.7.(c)(v) by inclusion of an additional class(es) of entity or through setting specific size criteria (such as using revenue, assets or employee number limits).*

*~~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~~*

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<sup>3</sup> International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

<sup>4</sup> ISQM 2, *Engagement Quality Reviews*.

<sup>5</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*.

~~contemplate jurisdictional descriptions.”~~

- Paragraph P16 in the Preface states the following:

*“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. ...”*

Paragraph P16 is misleading as there is no criteria for an LCE provided in Part A of the Authority, but rather entities that do not meet the requirements for using the proposed standard. We suggest that this paragraph be amended to align with Part A of the Authority.

## B. SPECIFIC QUESTIONS AND RESPONSES

### 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:

Except for our concerns mentioned above, we are supportive of the standalone nature of the proposed standard. Positioning it as a separate proposed standard makes it clear that it cannot be used together with the full set of ISAs. However, to fully achieve the objective of the standalone nature of the standard and have a consistent performance of a quality audit, there are few matters that we recommend be considered before finalising the proposed standalone standard.

Since the proposed standard contains no Application Material (AM) and very limited Essential Explanatory Material (EEM), it is recommended that Implementation Guidance be issued as soon as possible after the issue of the final standard to support auditors by providing further explanation of the requirements and guidance for carrying these out. Certain users of the proposed standard may not have a working knowledge of the ISAs, and will depend on the Implementation Guidance to supplement their understanding of the proposed standard for consistent application thereof. Examples of areas where Implementation Guidance would be particularly necessary are:

- Materiality:  
No guidance as to the determination of materiality is provided in the proposed standard. The auditor cannot revert to the ISAs for guidance. As such, clear guidance needs to be incorporated into this standard. Materiality is the one area that could influence the efficiency of the audit procedures.
- Transitioning:
  - The transitioning procedures to be implemented, if during the audit the evaluation of complexity of the entity changes and transitioning to the ISAs is required;
  - Switching between the proposed standard and the ISAs from one year to the next and the resulting impact, for example, as it relates to opening balances, comparative information, reporting requirements, etc.; and
  - Would the expectation be to transition to the ISAs for one year and thereafter transition back to the proposed standard in the next year? It would seem cumbersome to need to move back and forth.
- Going concern.
- Accounting Estimates.
- Subsequent Events.

In addition, the Authority of the proposed standard should state that the auditor is not allowed to “top-up” a requirement(s) and/or AM from the ISAs, if it is not part of the core requirements in the proposed standard, (that is, there is no intended need to directly reference back to the requirements or application material in the ISAs in the application of the proposed standard

and relevant ISA requirements cannot be used to “top-up” the ISA for LCE). Please refer to our further comments in response to question 3.

The proposed standard should not be a summary of the ISAs but have discrete requirements and application/implementation guidance with reference to LCEs, thereby ensuring that auditors do not default to the ISA AM when unsure of how to operationalise a requirement specific to LCEs.

Lastly, it is not clear as to why the amendments to the Preface and the Glossary have not been done in a similar or consistent manner. The Preface has been updated with the LCE principles, but a separate Glossary has been included in the proposed standard.

Further, refer to our comments under General.

(b) The title of the proposed standard.

**Response:**

We are supportive of the title of the proposed standard. It indicates the type of entities it is applicable to. It is also globally understandable.

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

**Response:**

We recommend that the IAASB considers clarifying or providing guidance on the following matters:

- There is no definition for an LCE provided in the proposed standard, but rather just a list of entities that are precluded from using it.
- Reference is made in the proposed standard to complex versus non-complex, for example, accounting estimates. The term complex is however not defined, and it is also unclear as to who would make this determination.
- The proposed standard includes reference and guidance to the use of the work of an auditor’s or management’s expert. Would this not indicate that the audit is not “straight forward” and therefore not be considered as an LCE?

2. Do you agree with the proposed conforming amendments to the IAASB Preface (see paragraphs 39-40)? If not, why not, and what further changes may be needed?

**Response:**

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

#### *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:

### Overall comments

The proposed standard needs to be consistently implementable across jurisdictions by audit firms and on audit engagements. As such, the Authority of the proposed standard needs to be clear, unambiguous, provide little room for professional judgment, and provide a clear direction and sufficient guidance. This is fundamental to its successful implementation and adoption.

The unintended consequence of using the proposed standard when it should not be used would result in the auditor not obtaining sufficient appropriate audit evidence to support a reasonable assurance opinion and potentially expressing an inappropriate opinion. The Authority of the proposed standard thus needs to be sufficiently robust to avoid these eventualities.

Generally, we are supportive of the Specific Prohibitions contained in the Authority of the proposed standard. However, we are not supportive of the Qualitative Characteristics (paragraphs A8-A9), as stated below.

We are supportive of the Supplemental Guidance for the Authority of the Standard and recognise that it is clearly needed. However, our concern is that with the guidance outside of the proposed standard auditors may not understand the need to read the Authority Supplemental Guide and not obtain a full understanding of the authority.

### Specific comments

#### Authority – Specific Prohibitions

We suggest that the following enhancements be considered:

- Provide a clearer link between the phrase “entities that have public interest characteristics” (paragraph A5) and the entities referred to in paragraphs A6-A7. Although paragraph A5 is true, it does not flow through to paragraphs A6-A7.
- The description of how legislative or regulatory authorities or relevant local bodies with standard-setting authority can modify each class of entities described in paragraph A7(c) should be clarified in paragraph A6. The description, as it is currently drafted, may be considered difficult to understand. It is suggested that paragraph A6 be “bulleted” and some wording from paragraph 19 of the guidance contained in the Authority Supplemental Guide be moved to the Authority of the proposed standard to provide clarity and prevent inappropriate use.

#### **Suggested editorial changes:**

“Legislative or regulatory authorities or relevant local bodies with standard-setting authority can modify each class described in paragraph A.7.(c) but a class cannot be removed. Modifications can be made by:

- (a) Adding a class of entities to the list of prohibited entities;,-
  - (b) Permitting specific sub-sets within a class of entities which do not exhibit public interest characteristics to be able to use the [draft] standard; or
  - (c) Using quantitative thresholds to prohibit use of the [draft] standard.”
- As set out in paragraph 57 of the Explanatory Memorandum, paragraph A7(c)(i)-(iv) of the proposed standard is broadly aligned with the proposals by the International

Ethics Standards Board for Accountants (IESBA) to describe a public interest entity (PIE) in its project to define a PIE. In the proposals presented to the IESBA, its PIE Task Force (TF) proposed that the following categories be excluded from the list of mandatory PIE categories:

- (d) An entity whose function is to provide post-employment benefits; and
- (e) An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public.

The IESBA at its December 2021 Board meeting approved the definition of PIE without the abovementioned categories.

The IAASB is encouraged to maintain its view that the classes of entities listed in paragraph A7(c)(i)-(iv) are the same classes of entities that the IAASB would consider as exhibiting public interest characteristics, for the purpose of the proposed standard, and therefore would continue to use these descriptions.

#### Authority – Qualitative Characteristics

The Qualitative Characteristics provide a second step in determining when it would be inappropriate for an audit of financial statements of an entity to be undertaken using the proposed standard, once it has been determined that the audit engagement is not prohibited from using the proposed standard as set out in paragraph A7.

The Qualitative Characteristics set out in paragraph A9 of the proposed standard – which include: (i) business activities; (ii) organizational structure; (iii) ownership; (iv) oversight; and (v) regulation – are effective indicators against which to measure whether an entity is an LCE or not.

However, as drafted, these Qualitative Characteristics require the auditor to exercise professional judgment because of the use of words such as “complex/complexity” and “not ... simple”. The use of professional judgment by auditors will lead to the inconsistent and inappropriate use of the proposed standard among audit firms, and even within audit firms. There should be little room for the exercise of professional judgment. It is our view that the required use of professional judgment is too high; therefore, a higher level of prescription is more desirable.

Different auditors have different definitions of complexity and simplicity. For example, the use of a Black Scholes method in calculating an accounting estimate may be complex to one auditor but simple to another, depending on, perhaps, how often the auditor has audited such an accounting estimate in the past. As such, the auditor who believes that such an accounting estimate is simple would choose to use the proposed standard, but the auditor who believes that such an accounting estimate is complex would be precluded from using the proposed standard.

This simple example illustrates how the professional judgment of an auditor can lead to the inconsistent and inappropriate use of the proposed standard.

Although the table below paragraph 28 of the Authority Supplemental Guide is somewhat helpful in providing examples of characteristics that may or may not be associated with an LCE, words like “complex” and “straightforward” are still used and provide the same concerns as with paragraph A9.

As such, the IAASB should consider amending the Qualitative Characteristics section (paragraphs A8-A9) of the proposed standard by clarifying what “complex” and “simple”,

among others, mean or by using different ways to describe how the Qualitative Characteristics will influence the auditor's decision as to whether an entity is an LCE.

Further, consideration may also be given to what an LCE is, as opposed to focusing on what it is not.

Based on our comments above and below, we do not agree that the Authority of the proposed standard can be implemented in a consistent manner, which is pivotal to its successful implementation and adoption.

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

Response:

In our view, a possible unintended consequence could be inappropriate competition among audit firms where, for example, one audit firm correctly concludes that the proposed standard is not applicable vs an audit firm that inappropriately concludes it is applicable. This would be due to different professional judgments applied in reaching a conclusion as to whether the proposed standard may be applied, based on the qualitative considerations where they are not specifically excluded by the proposed standard.

Audit quality could be sacrificed if the work effort that would result from applying the proposed standard is not considered sufficient with reference to the nature and circumstances of the entity and its operations. Audit inspection findings are not limited to listed and PIE audits but to all segments of the audit market.

Further, refer to our comments under General, and responses to questions 1(a) and 3(a).

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

Response:

Paragraph A.9 of the proposed standard states the following:

*"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:*

- *The entity's business activities, business model or the industry in which the entity operates results in pervasive risks that increase the complexity of the audit, such as when the entity operates in new or emerging markets, or entities in the development stage.*
- *.....*

*This list is not exhaustive and other relevant matters may also need to be considered. 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. ...."*

The first paragraph states that the use of the proposed standard is inappropriate if the entity exhibits one or more characteristics. However, the closing paragraph of this section contradicts this. We suggest that the first paragraph be amended to read as "may be inappropriate ...".

Further, refer to our comments under General and responses to questions 1(a) and 3(a).

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

**Response:**

Based on our response to question 3(a), including as stated that the required use of professional judgment is too high and that a higher level of prescription is required, the Authority, as set out, will not 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?

**Response:**

Generally, the proposed role of legislative or regulatory authorities or relevant local bodies with standard-setting authority in individual jurisdictions is clear and appropriate. This may still create diversion and inconsistency in the market-place, and we would be therefore open to any steps to further clarify their roles, and to not allow greater flexibility in this area.

Further, we encourage the IAASB to consider:

- Editorial changes to paragraph A6 – Refer to our response to question 3(a): Authority – Specific Prohibitions (second bullet point) for suggestions.
- Editorial changes to paragraph A10 – The last sentence of paragraph A10 potentially adds little value or at least the reference to the ISAs is not necessary.

*“... professional accountancy organizations or others as appropriate) in individual jurisdictions. This applies to the International Standards on Auditing (ISAs) and the [draft] ISA for LCE.”*

OR

*“... professional accountancy organizations or others as appropriate) in individual jurisdictions. This applies to the International Standards on Auditing (ISAs) and the [draft] ISA for LCE.”*

In addition, we suggest the following editorial changes to paragraphs A12 and A13 in the Firms and Auditors section:

- In paragraph A12 – “consider<sup>6</sup>” is a more appropriate “work effort verb” than “take into account<sup>7</sup>”:

*“... In doing so, the firm considers ~~takes into account~~ the specific prohibitions for use of the [draft] standard ...”*

<sup>6</sup> Consider – A more active reflection by the auditor about a specific matter or relevant matters in the circumstances. Also known as “reflect upon”.

<sup>7</sup> In performing procedures, actively thinking about or being influenced by relevant matters but only taking action when the matter is applicable.

- In paragraph A13 – “consider” is a more appropriate action verb than “take into account”:

“... For this purpose, the engagement partner considers ~~takes into account~~: ...”

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:

4(a) – Specific prohibitions:

- Group Audits
  - Group audits are not always complex by default. There are less complex groups, such as groups with dormant entities, small groups with a holding company and one operating entity, or groups that may be exempt from consolidating through IFRS 10, paragraph 4. With appropriate guidance on the nature of groups that are appropriate to audit as an LCE, group audits could be included in the proposed standard.
  - It is further unclear whether a subsidiary or component of a group may apply the proposed standard, where applicable; if additional procedures would be required to “bridge the gap”; and the impact on the group auditor’s report as the group would be audited in terms of both the ISAs and the proposed standard.

- Public Sector

Paragraph A.5 of the proposed standard states the following:

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

The prohibition quoted above may result in challenges and/or inconsistencies when attempting to implement the proposed standard in the public sector. The indicators of public interest in the proposed standard seem to be relating mostly to public/private entities.

The classes of entities with public interest characteristics that are specifically prohibited, as per paragraph A7 of the proposed standard, are also entities that are likely to have complex transactions. Jurisdictions or audit firms may interpret the prohibition in paragraph A5 of the proposed standard to also require the exclusion of public sector entities by virtue of the implied level of public interest in the public sector, regardless of a specific public entity not having a significant impact on a large number

of stakeholders, or complex transactions. Such an interpretation may then preclude totally the use of the proposed standard in the public sector.

We suggest that the prohibition be in relation to the complexity that is brought about by certain public interest characteristics and not by the public interest characteristics themselves.

Further, it should be noted that entities do not use the ISA for LCE; rather, the ISA for LCE is used by auditors for the audit of entities.

As such, we suggest the following rewording to paragraph A5:

*“The draft ISA for LCE is specifically prohibited from being used for entities that have public interest characteristics that embody a level of complexity in fact or appearance.”*

- Further, refer to our response to question 3(a).

4(b) - Qualitative characteristics

- Refer to our response to question 3(a).

5. Regarding the Authority of the Supplemental Guide:

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

**Response:**

We are supportive of the Authority of the Supplemental Guide and note that it is necessary to read the Supplemental Guide alongside the Authority in the proposed standard to obtain a complete understanding of the authority of the proposed standard.

The examples provided in the Authority Supplemental Guide of what could constitute an LCE are useful.

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

**Response:**

We suggest that the IAASB considers the following enhancements to the Authority Supplemental Guide:

- Remove extracts from the Authority of the proposed Standard to reduce its length.
- Make it clearer in paragraph 31 that the auditor would be prohibited from applying the requirements as illustrated in (a)-(c) in an audit of an LCE because they do not form part of the core requirements in the proposed standard. Furthermore, include paragraph 27 of the Explanatory Memorandum to further illustrate this important concept.
- As with the Qualitative Characteristics section of the proposed standard, amend the Qualitative Characteristics section of the Authority Supplemental Guide (paragraphs 24-29) by clarifying what “complex” and “simple”, among others, mean or by using different ways to describe how the Qualitative Characteristics will influence the auditor’s decision as to whether an entity is an LCE.
- Editorial changes to paragraph 19:

“... For example, there may be entities within a local context that are scoped in-out when they, in fact, do not exhibit public interest characteristics as contemplated in paragraph 15 above ...”.

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:**

We note that the diagram on page 18 of the Explanatory Memorandum and in the Authority Supplemental Guide has a different flow to how the “prohibitions” are listed in the proposed standard. We suggest that the diagram be aligned with the prohibitions as set out in the proposed standard.

Further refer to our comments under General, and responses to questions 1(a), 3(a), 4 and 5(b).

*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:**

We agree with the approach taken by the IAASB in how the ISA requirements have been incorporated in the proposed standard. The layout of the proposed standard is also simple to navigate. The EEM provides additional guidance on aspects that could be considered judgmental; therefore, it provides a structure to approach contentious matters and judgments. The content of the EEM is useful and written in a simple manner.

However, it is recommended that Implementation Guidance (including practical examples) be issued as soon as possible after the issue of the final standard, to support auditors by providing further explanation of the requirements and guidance for applying them.

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

**Response:**

We agree with the approach to the objectives of each part of the proposed standard.

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

**Response:**

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

However, it is recommended that Implementation Guidance be issued as soon as possible after the issue of the final standard, to support auditors by providing further explanation of the requirements and guidance for applying them.

- (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:**

We agree with the approach to the content of the EEM, including that it serves the purpose for which it is intended.

The EEM is sufficient. However, it is recommended that Implementation Guidance (including practical examples) be issued as soon as possible after the issue of the final standard, to support auditors by providing further explanation of the requirements and guidance for carrying them out.

Further, based a more narrowly defined Authority, there would be greater scope for the EEM to better reflect the nature and circumstances of audits of entities for whom the proposed standard was intended for use.

We support the way that the EEM has been presented within the proposed standard.

**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:**

We support the overall design and structure of the proposed standard as well as the overall drafting principles applied. We also agree that the separate standard should be based on the ISAs and retain the robustness of an audit, using ISAs to support a quality audit. The design and structure allow for a great flow of information in line with how an audit is performed. Many sections have been condensed into one part to allow for concise documentation and an avoidance of repetitions.

However, we suggest that the IAASB considers the following as it finalises the proposed standard:

- In drafting of the proposed standard, the IAASB used the CUSP Drafting Principles and Guidelines. The proposed standard should be updated to reflect any changes made in a more advanced draft or the final CUSP Drafting Principles and Guidelines.
- Paragraph 2.1.3 of the draft CUSP Drafting Principles and Guidelines presented to the IAASB at its April 2021 meeting states that: “Sentences express just one idea. Sentences longer than a line and a half may be too lengthy.” In certain instances, sentences and paragraphs contained in the proposed standard are taken verbatim from the ISAs, which themselves are considered to have unnecessarily long and complex sentences. It is suggested that the IAASB considers making these sentences and paragraphs shorter and less complex, without losing the meaning of the requirement in the ISAs. Please refer to comments to questions 9-10 for detailed responses in this regard.
- Include the explanation provided in paragraph 101 of the Explanatory Memorandum, for users to understand that the use of the proposed standard is not of a lesser nature than 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:**

Overall comments:

- Throughout the draft, the proposed standard is referred to in different ways, such as:
  - The [draft] ISA for LCE.
  - This [draft] ISA for LCE.
  - This [draft] standard.

We recommend that the proposed standard be consistently “named” throughout.

- For the EEM specific to the requirements, we suggest that the various topics be separated or differentiated by, for example, making use of bullets or headings in bold. This would help auditors to identify information that is relevant to their audit.

Example from page 99:

**“Considerations Specific to Public Sector Entities”**

“Xxxxx ...”

## “Automated Tools and Techniques”

*The auditor is not required to perform all of these procedures for each aspect of the auditor’s understanding required.*

### *Considerations Specific to Public Sector Entities*

*When making inquiries of those who may have information that is likely to assist in identifying risks of material misstatement, auditors of public sector entities may obtain information from additional sources such as from the auditors that are involved in performance or other audits related to the entity. Procedures performed by auditors of public sector entities to identify and assess risks of material misstatement may also include observation and inspection of documents prepared by management for the legislature, for example documents related to mandatory performance reporting.*

### *Automated Tools and Techniques*

*If the auditor uses ATT, the auditor may design and perform procedures to identify and assess risks of material misstatement on relatively large volumes of data (from the general ledger, sub-ledgers or other operational data) including for analysis, observation or inspection.*

- Review of the Mapping Documents

We propose that the amendments detailed below (refer to pages 34-44) be made to the proposed standard.

Please refer to our comments on Parts 1-8 of the proposed standard.

### Part 1: Fundamental Concepts, General Principles and Overarching Requirements

- None.

### Part 2: Audit Evidence and Documentation

- Paragraph 2.5.1. (a)(iii):

It is unclear what is meant by “what was reviewed”. This addition to the proposed standard goes beyond the requirements of ISA 230, which states the extent of review should be clear. For example, would a review memorandum have to be documented or would a sign off on the working paper be sufficient?

- Editorial changes to the EEM paragraph below paragraph 2.2.2. – Delete the sentence that is struck through. This sentence is repeated and better placed in the EEM below paragraph 2.3.1.:

“Appropriateness is the measure of the quality of the audit evidence, that is its relevance and reliability in providing support for the conclusions on which the auditor’s opinion is based. ~~The reliability of audit evidence is influenced by its source and by its nature, and dependent on the individual circumstances under which it is obtained.~~”

- Editorial changes to paragraph 2.3.4.:

“The auditor shall determine what modifications or additions to audit procedures are necessary if:

### Part 3: Engagement Quality Management

- Editorial changes to paragraph 3.2.4. – The paragraph can be split to simplify a long and complicated sentence:  
*“In taking overall responsibility for managing and achieving quality through direction, supervision and review of the work, the engagement partner shall determine that:*  
*(a) ~~T~~he nature, timing and extent of direction, supervision and review is responsive to the nature and circumstances of the engagement; and*  
*(b) ~~T~~he resources assigned, are in compliance with the firm’s related policies or procedures, this [draft] standard, relevant ethical requirements and regulatory requirements.”*
- Editorial changes to paragraph 3.2.10.:  
“... (a) Understand the information from the firm’s monitoring and remediation process that has been communicated; and, if applicable, the information ~~for~~ from the monitoring and remediation process of other network firms that has been communicated, ...”

#### Part 4: Acceptance or Continuance of an Audit Engagement and Initial Audit Engagements

- None.

#### Part 5: Planning

- Paragraph 5.2.8. (b) and (c): We suggest that these be included in Part 7, under “Using the Work of an Auditor’s Expert” as they are consistent with the auditors’ experts. Further, we propose that auditors would require additional guidance to apply requirement (b) – “Understand the work of that expert”.
- Paragraph 5.2.11. is an example of a long and complicated paragraph. It is a combination of paragraphs 9-11 of ISA 620<sup>8</sup>. Paragraph 10 of ISA 620 contains two sub-bullets and paragraph 11 contains three. In line with the CUSP Drafting Principles and Guidelines, it is suggested that paragraph 5.2.11 be split into three requirements that mirror paragraphs 9-11 of ISA 620.
- Paragraph 5.5. does not have specific documentation requirements regarding management experts, auditor’s experts and going concern, which is required in this part. We suggest that these be included.

#### Part 6: Risk Identification and Assessment

- Editorial changes to EEM below paragraph 6.2.1 – A “full-stop” is missing at the end of the first sentence:  
*“... When such systems and processes lack formality, compliance with the procedures in this Part is still required. For example, the auditor may still be able to perform the required procedures through observation and inquiry ...”*
- Editorial changes to paragraph 6.2.2. – Remove the “full-stop” at the end of sub-bullet (b):  
*“(a) Inquiries of management, and other appropriate individuals within the entity;*  
*(b) Analytical procedures; and*

<sup>8</sup> ISA 620, *Using the Work of an Auditor’s Expert*.

*(c) Observation and inspection.”*

- Paragraph 6.3.1.(f) seems to extend beyond the ISA principles. It is unclear whether this was intentional.
- Editorial changes to paragraphs 6.3.2. and 6.3.3. – In terms of paragraph 5.1.2 of the CUSP Drafting Principles and Guidelines, the term “*obtain an understanding*” should be used, rather than using the word “*understand*”:
  - 6.3.2.: “*The auditor shall obtain an understanding of how those charged with governance exercise oversight ...*”
  - 6.3.3.: “*The auditor shall obtain an understanding: ...*”

It is suggested that this principle be consistently applied throughout the proposed standard.

- The EEM paragraph above paragraph 6.3.6. of the proposed standard lists the five components of internal control, and that includes “control activities”, per ISA 315 (Revised). A decision was made when drafting the proposed standard not to introduce the term “control activities”, but to rather use the word “controls”. Paragraph 6.3.14. of the proposed standard lists the “controls” (which are the controls within the “control activities” component paragraph in ISA 315 (Revised)), and only uses the word “controls”. As such, the use of the term “control activities” in the EEM paragraph may be considered confusing. It is therefore suggested that the IAASB either decides to introduce the term “control activities” into the proposed standard” or amends the list of the five components in the EEM paragraph above paragraph 6.3.6 to align it to the terms used in the proposed standard.
- Paragraph 6.3.14(d): We propose that auditors would require additional guidance to apply this requirement. As such, we suggest that the content of paragraph A165 of ISA 315 (Revised) be included to assist with application of the requirement.
- Editorial changes to paragraph 6.3.16. – Add a “full-stop” after the reference to paragraph 6.3.15.:

*“For the IT applications and other aspects of the IT environment identified in paragraph 6.3.15., the auditor shall identify the related risks ...”*

- Paragraph 6.3.17: We propose that the clients’ use of a service organisation is an important area on which auditors would require more guidance. We suggest that the EEM be enhanced in this regard.
- Editorial changes to the EEM paragraph below paragraph 6.5.4.:

*“... unless the risk is of a type specified to be treated as a significant risk as set out in paragraphs 6.5.7.4.–6.5.5...”*

- Editorial changes to paragraph 6.5.7.(a)(ii) – There appears to be a red line struck-through the word “*fraud*”, which should be deleted or the word “*fraud*” should be re-instated:

*“... risk of fraud in revenue recognition. Based on a presumption that there are risks of fraud ~~fraud~~ in revenue recognition ...”*

- We support the inclusion of the “stand-back” requirement in paragraph 6.5.11. However, we suggest that support material explain how an auditor would transition

out of the proposed standard to the ISAs, should the application of the proposed standard no longer be appropriate.

- Paragraph 6.5, EEM paragraph (block), discusses aspects relating to magnitude and likelihood. It states that: *“In considering the magnitude of a misstatement, the auditor considers the qualitative and quantitative aspects.”*

The qualitative aspects might be better placed as part of the “likelihood” rather than the magnitude. For instance, judgment may increase the likelihood of an error. This would be due to the qualitative aspect of there being judgment involved.

#### Part 7: Responding to Assessed Risks of Material Misstatement

- Editorial changes to paragraph 7.3.12.(a) – This sentence is long and complicated. It is suggested that it be broken down by introducing sub-bullets:

*“Consider:*

*(i) ~~T~~the effectiveness of the components of the internal control system;*

*(ii) ~~T~~the risks from the characteristics of the control (e.g., manual or automated);*

*(iii) ~~T~~the effectiveness of general IT controls;*

*(iv) ~~T~~the effectiveness of the control and its application by the entity;*

*(v) ~~W~~whether the lack of a change in a particular control poses a risk due to changing circumstances; and*

*(vi) ~~T~~the risk of material misstatement and the extent of reliance on the control planned”.*

- Editorial changes to paragraph 7.3.12.(a)-(b):

Formatting: It appears as if the paragraph spacing is different from the rest of the document and appears to be “aligned left” rather than “justified”. It is suggested that it be corrected.

- Editorial changes to paragraph 7.4.18.(a)-(b):

Formatting: It appears as if paragraph spacing is different from the rest of the document and appears to be “aligned left” rather than “justified”. It is suggested that it be corrected.

- Editorial changes to EEM paragraph below paragraph 7.4.20. – There appears to be a red line struck-through the word “to”, which should be deleted or re-instated:

*“In some cases, attendance at physical inventory counting may be impracticable. This may be due ~~to~~ factors such as the nature and location of the inventory ...”*

#### Part 8: Concluding

- Editorial changes to paragraph 8.1.1.:

Formatting: It appears as if paragraph spacing is different from the rest of the document and appears to be “aligned left” rather than “justified”. It is suggested that it be corrected.

- The EEM to paragraph 8.5.1. states that *“... the auditor may also consider whether such information changes the auditor’s determination about the appropriateness of*

*use of the[draft] ISA for LCE for the audit, which may necessitate a modification to the terms of engagement.” This EEM is in relation to the requirement in paragraph 8.5.1. requiring the auditor to “... evaluate whether the assessments of the risks of material misstatement at the financial statement and assertion levels remain appropriate” and is a form of a “stand-back” that the auditor should take at the conclusion stage of the audit.*

We suggest that this “stand-back” contained in the EEM be elevated to a requirement below paragraph 8.5.1.

- Paragraph 8.4.5: We suggest that requirements be included on steps the auditor would consider if the auditor were not satisfied with how management intends to address a matter identified after the financial statements are issued.
- Include requirements in respect of the re-issuing of financial statements.

Paragraph 106(c) of the Explanatory Memorandum 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.”*

We are of the view that although it is expected to be rare, amendments to the financial statements after the date of the auditor’s report are not limited to complex entities only; and due to the nature of the proposed standard being a standalone standard, we suggest that guidance be included in the proposed standard in this regard.

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:**

(a) Regarding the presentation, content and completeness of Part 9:

- We agree with its presentation, content and completeness.
- The tabular format of information provided in Tables A, B and C is easy to navigate and useful.
- We suggest that it would be useful if Table C would also include a decision tree providing an overall view of the impact, should the auditor’s opinion be modified.
- Editorial changes to the International Auditor’s Report – Basis for Opinion on page 141 of 170:

The title of the ISA for LCE should read as “*International Standard on Auditing for Audits of Financial Statements of Less Complex Entities*” and not “*International Standard for Auditing on Audits of Financial Statements of Less Complex Entities.*”

- (b) The approach to include a specified format and content of an unmodified auditor's report as a requirement?
- Yes, we agree with this approach.
- (c) Regarding the approach to providing example auditor's reports in the Reporting Supplemental Guide:
- Yes, we agree with the inclusion of example auditor's reports in the Reporting Supplemental Guide.
  - Further, we suggest the following amendments to:
    - Reporting example 9.5.1 T:  
When an auditor concludes that there is sufficient doubt about the competence, integrity, ethical values or diligence of management, such that written representations are not reliable, this would be pervasive and therefore require a disclaimer of opinion only. A qualified opinion would not be appropriate. This will also then be consistent with the assessment of paragraph 9.5.1.U.  
  
A separate reporting example can be added where only a representation related to a specific line item is not reliable due to doubts about management's competence, in which case a qualified opinion may be appropriate.
    - Reporting example 9.5.1.Y:  
In this example the auditor has obtained evidence that the financial statements prepared in accordance with a compliance framework is misleading. It would therefore not be appropriate to issue a disclaimer of opinion, as evidence of a disagreement with management is available. As such, only a qualified or adverse opinion would be appropriate.

11. With regard to the Reporting Supplemental Guide:

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

**Response:**

We support the development of the Reporting Supplemental Guide. The support material is necessary and helpful.

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

**Response:**

We suggest that illustrative examples for the following scenarios be included in the Reporting Supplemental Guide:

- Transitioning:
  - Transitioning from the proposed standard to the ISAs during the audit, due to the complexity of matters identified/involved.
  - Reporting requirements when the proposed standard is being applied in one year and the ISAs are applied in the next year and vice versa.
  - When the auditor transitions from the ISAs to the proposed standard, the guidance caters for the inclusion of an "other matters" paragraph in the auditor's

report, to highlight this to the users of the financial statements. We propose rather that highlighting it separately in the auditor's report would be useful to the users of the financial statements.

- Special purpose reporting, given that many LCEs use entity specific reporting frameworks that would fall within the scope of ISA 800 (Revised)<sup>9</sup> (refer to our response to question 16).
- Material uncertainty related to going concern.
- An illustration of a qualified opinion arising from a limitation in scope and a modified Other Information section, for completeness.

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:**

We suggest that consideration be given to including simplified requirements in relation to internal audit. Although it is true that auditees with internal audit functions will likely be more complex and outside the scope of the proposed standard, there may be instances where less complex auditees are required by legislation to have an internal audit function, for example, in the public sector. As such, reliance on direct assistance from internal auditors could also be considered for an LCE.

**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:**

We are of the view that the following aspects may create challenges for transitioning to the ISAs:

- The auditor is required to determine whether the proposed standard is appropriate for the audit engagement; and if it is found that it is not appropriate because of matters of complexity arising during the audit, then a transition to the ISAs is required. It is unclear how an auditor will be able to identify such situations without an understanding of the ISAs if the auditor has focused his/her training on and performed only LCE audits.
- The proposed standard is unclear on the procedures/steps that the auditor would need to follow and consider.
- There is also no guidance on re-issuing of financial statements, the auditor's responsibility in this regard and the impact on the auditor's report.

<sup>9</sup> ISA 800 (Revised), *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*.

- Further, the lack of sufficient guidance on transitioning might result in some audit firms opting to apply the ISAs, as their audit methodologies are already tailored for the consideration of LCEs. The potential cost and time of needing to transition back to the ISAs will be a significant consideration for audit firms on whether or not to use the proposed standard.
- Other challenges:
  - Possible auditor/client relationship tension.
  - Audit cost disputes between the auditor and the audit client.
  - Time constraints.

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

Response:

We suggest that the following support materials be developed:

- As mentioned as part of our response to question 9 when commenting on the “stand-back” requirement in paragraph 6.5.11. of the proposed standard, it is suggested that support material be issued on how an auditor would transition from the proposed standard to the ISAs, should the application of the proposed standard no longer be appropriate.
- We support that First-time Implementation Guidance on transitioning between the proposed standard and the ISAs (including details of the type of additional work that may be required) should be issued. This could assist auditors with a quicker transition. Otherwise, in the absence of appropriate guidance, the transition could be time consuming and costly, which could serve as a disincentive for firms to adopt this standard. The inclusion of a decision tree to guide auditors when transitioning between the two standards would be useful.
- The First-time Implementation Guidance should address all the matters set out in paragraphs 139-140 of the Explanatory Memorandum. It is also important that the mapping documents are updated post exposure and issued alongside the final proposed standard.
- Paragraph 140 of the Explanatory Memorandum references the anticipated development of illustrative reports in relation to ISA 710. It is suggested that these illustrative reports be included in the Reporting Supplemental Guide rather than any other implementation material, so that all illustrative auditor’s reports are kept together.
- Guidance on the drafting of engagement letters might be needed, considering the subjective nature of the proposed standard, including a caveat that the decision to use the proposed standard was made with the information available at the client acceptance phase and that this might be subject to change.
- With a more clearly defined narrower scope, the risk of audits being commenced using the proposed standard and subsequently judged to no longer meet the criteria for use, would reduce the need for extensive transition guidance. With a narrower Authority, in the rare circumstances that matters arise that leads to a determination that a

transition to the ISAs is required, guidance on how any work completed using the proposed standard can be leveraged as part of an ISA audit will be needed.

- The other challenges noted above are more relationship-related matters between the auditor and the audit client. They might not be the IAASB's responsibility to issue guidance on. However, another body such as IFAC could address these matters.

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

Response:

We agree with the proposed approach to the future updates and maintenance of the proposed standard and related supplemental guidance to ensure that they are fit for purpose and consistent to avoid confusion.

However, we suggest that amending the proposed standard when projects to revise the ISAs are undertaken requires a proviso that the proposed standard not be amended more than once annually.

Although it is unlikely that more than one ISA would be revised in one calendar year, it is necessary to add this proviso as a precautionary measure.

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

Response:

We support early adoption.

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

Response:

We agree that a separate Part on the ISA 800 series be included in the proposed standard now, before it is finalised and issued.

ISA 800 should be included in the proposed standard, so that it can also be applied to audit clients that prepare their financial statements on special purpose frameworks (e.g. entity specific basis of accounting). LCEs may typically be such types of entities; and considering that the proposed standard may not be used in conjunction with the ISAs, not including ISA 800 may preclude the use of the proposed standard for these types of entities.

Additional considerations may need to be added to the Authority to determine when these types of audits will be considered less complex, to ensure that the proposed standard is appropriately applied in the specific circumstances.

Further, we suggest that the proposed standard excludes engagements to report on summary financial statements, ISA 810 (Revised)<sup>10</sup>, as this may be considered complex.

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<sup>10</sup> ISA 810 (Revised)<sup>10</sup>, *Engagements to Report on Summary Financial Statements*.

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:

Subject to our concerns expressed in responses to other questions, we consider that the proposed standard could be used to obtain reasonable assurance and express an audit opinion. However, a decision on whether it will be adopted in South Africa is subject to further development of the Standard, local consultation and due process considerations.

Currently, audits for LCEs are already performed using the ISAs, without the more complex requirements that are not applicable in these types of entities. The potential benefit of having an international standard guiding the audit of LCEs is recognised in that there will be consistency in how audit firms adapt the ISAs to less complex environments, and it will be easier to develop, adapt and update audit firm methodologies for less complex auditees. However, the proposed standard in its current form will not achieve this consistency.

A concern is that audit clients might expect to see a reduction in audit fees in the application of the proposed standard and it is unclear whether this would be achieved.

Audit firms might not be in a position to determine whether an engagement will be within the scope of the proposed standard at the client acceptance phase of an audit, due to limited knowledge of the audit client and conditions at that stage. It is usually thereafter (client acceptance phase) that audit fees are negotiated with audit clients. Transitioning from the proposed standard to the ISAs would result in an increase in audit fees and may have an impact on the audit client's decision to appoint the audit firm.

Also, the administrative burden in ensuring and documenting the professional judgment involved in the determination of whether the proposed standard is applicable to an engagement currently seems to outweigh the benefit of using this standard in its current form.

Whether or not the proposed standard will be used would depend on the final version of the standard and how the comments received have been dealt with/responded to by the IAASB.

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

Response:

Subject to our concerns that are expressed in response to other questions, it appears that the proposed standard could meet the needs of audited entities, users of audited financial statements and other stakeholders. There are exceptions though described above and below.

A large percentage of entities (currently subject to audit) in South Africa would be eligible for applying the proposed standard.

In terms of Section 30(2)(b) of the Companies Act of South Africa (Act 71 of 2008), other profit (other than a public company) or non-profit companies may be:

(i) audited; or

(ii) either:

- (aa) voluntarily audited; or
- (bb) independently reviewed.

This section of the Companies Act, together with supporting regulations, provides for certain entities to independently review their annual financial statements, to reduce the burden of requiring an audit of the financial statement or opting for a voluntary audit. Such entities are those that are not in the public interest, are not economically or socially significant and do not hold points that are calculated as a Public Interest Score<sup>11</sup>.

In accordance with Regulation 29(3) of the Companies Act, an independent review is performed in accordance with ISRE 2400 (Revised).

The Companies and Intellectual Property Commission (CIPC) representative on the LCE Task Group noted that even though the Companies Act (as amended) caters for reducing the regulatory burden on small and medium-sized companies and improving the ease of doing business in South Africa, there has been limited uptake by companies who qualify for their financial statements to be subjected to an independent review to do so. Independently reviewed annual financial statements are not widely accepted by the financial institutions and other business investors/funders. Audited annual financial statements still remain the preferred choice. It is understood that the main reason for this is that the engagement is not an audit and the assurance on a review engagement is not reasonable assurance. As such, companies have opted for voluntary audits.

The users of these financial statements might be satisfied with the reasonable assurance opinion provided when using the proposed standard. There certainly would be a need for educational events to help users of financial statements to understand that an audit performed using the proposed standard is not considered a lesser audit when compared to an audit performed using the ISAs.

As such, the category of companies that have been subjected to an independent review in terms of the Companies Act may meet the definition of a less complex entity, meaning the proposed standard could be appropriate for use in an audit of these companies.

However, auditors will need to manage the expectations of audit clients as to the reduction in audit fees as opposed to making use of the scalability provided for in the ISAs, where additional considerations and documentation for the use of the proposed standard will not be required.

Nevertheless, per some of the auditors represented on the LCE task group, the view is that, by incorporating a majority of ISA requirements without any substantive simplification, the proposed standard would not lead to any significant benefit in terms of time, cost, efficiencies, etc. As such, the current draft of the proposed standard is unlikely to meet the needs of auditors.

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

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<sup>11</sup> The Public Interest Score is based on the average number of employees during the financial year; third-party liability of the company at year-end; turnover during the financial year; and the individuals who at the end of the financial year are known by the company to directly or indirectly hold a beneficial interest in its shares or to be a member of the company.

Response:

Please refer to our responses to other questions, particularly to the following:

- Question 3 – Authority.
- Section 4E – Content of the proposed standard.
- Question 13 – Transitioning.
- Questions 22 – 26 – Group Audits.

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:

Based on the extent of proposed revisions, it is unavoidable that a further exposure of the proposed standard would be necessary. This would be critical for adoption in many jurisdictions, and an essential step in the due process, recognising that aspects of the current draft are incomplete and not fully developed.

*Section 4G - Approach to Consultation and Finalization*

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

Response:

The following guidance material would be useful:

- Application of the proposed standard.
- Sampling.
- Transitioning to the ISAs when the need is identified.
- A summary that is less comprehensive than the mapping documents, for auditors to understand what the key differences are regarding the proposed standard vs the ISAs.
- Online workshops and/or guidance videos that cover some of the key concepts and changes/differences between the ISAs and the proposed standard.

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:

Not applicable, as no translations are performed in South Africa.

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:

The discussion of effective date is premised on the understanding that a re-exposure will be necessary.

As is usually the case with new standards, a due process within jurisdictions that will implement/adopt the proposed standard will be required. Translation of the proposed standard will also be necessary in some jurisdictions.

The due process for implementing/adopting the proposed standard will not be a simple process. It will require action and possible legislation to be passed, in addition to action at jurisdictional level, as noted in the Authority section of the proposed standard.

Also, there will be a need for the development or revision of audit firm methodology and training of auditors and staff.

As such, we suggest that the proposed standard be made effective for financial periods beginning 24 months after the approval of the final standard. Early adoption, though, should be permitted and encouraged.

*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:

Selected group audits may be included in the scope of the proposed standard.

In an audit of groups, there are many less complex groups (except for the fact that they are groups) that the proposed standard could be appropriate for, and examples are:

- Owner-managed groups where subsidiaries are created for a specific purpose, i.e. to split the operations of the business for easier reporting rather than specifically dealing with more complexities.
- Where the consolidation process is straightforward and there are no complexities.
- Where there are similar control environments throughout the group.
- Groups consisting of many entities that are dormant or with limited activity.
- One holding company with multiple properties, each held in a company.
- Limited intragroup transactions.

Furthermore, in the public sector there are certain group structures that are created due to public sector legislation that is not necessarily complex and where all entities in the group would be audited by the same public sector auditors, i.e. the parent company, subsidiaries as well as the consolidated financial statements, limiting the risk of a gap in understanding the entity, internal controls and complexity of the group structure.

Therefore, excluding group audits from the scope of the proposed standard could potentially impact negatively on the adoption of the proposed standard.

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:

The auditors represented on the LCE Task Group consider that if group audits are excluded, the proposed standard would probably be used less frequently, as less complex groups are common in the South African environment.

From a public sector perspective, the proposed standard would still be used, as the majority of the entities are not groups. Those that are group entities are generally complex and would be outside the scope of this proposed standard.

(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:

- This is extremely difficult to assess reliably and differs entirely from Audit firm-to-Audit firm. A rough estimate only is that they could constitute approximately 20% of private audit clients.
- Typically, these could be property companies, agricultural audit clients and family-owned businesses as well as those established in terms of legislation.
- We estimate that less than 5% of all audit clients in the public sector would fall into this category.

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

Response:

According to some of the auditors represented on the LCE Task Group, the following are common examples of group structures and circumstances within their practice that would make them be considered as a less complex group:

- One holding company with one operating subsidiary.
- One holding company, with multiple entities beneath and no sub-groups/sub-consolidations.
- 100%-owned subsidiaries.
- Owner managed businesses with subsidiaries, with the specific purpose of splitting out different operations for reporting purposes, i.e. property companies with the main purpose of administering groups of properties and property rentals.
- Retail clients will be classified as ISA 600 groups where they have multiple national branches under the same jurisdiction, but a consolidation of financial information is required for reporting purposes.
- Numerous dormant entities.

- Majority of subsidiaries are less complex, all entities within the group have the same or similar control environment with similar operating environments, audited by one team and signed by one engagement partner.
- Management and those charged with governance are the same across the entire group.
- In the local government sphere in South Africa, certain municipalities might have entities that are structurally under their administration. 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 intragroup transactions, and transactions are largely 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:**

We suggest a combination of options (1) and (2) where:

- The IAASB establishes a proxy(ies) for complexity for when the proposed standard may be used, as this would allow for less professional judgment (Option 1); and
- The proposed standard sets out qualitative characteristics for complexity specific to group audits (Option 2).

However, as mentioned in our response to question 3, the qualitative characteristics as outlined in the proposed standard should be reworked/amended as they can lead to inconsistent and inappropriate use of 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:**

Other proxies that the IAASB could consider are:

- Group reporting lines/structures that should not consist of subgroups and complex sub-scoping decisions.
- Related party transactions that should not be complex and limited to financing and capital transactions.
- The number of subsidiaries and levels forming the group.
- Specific operations that might need to be excluded due to the inherent complexities in the industry and/or specific regulations and/or reporting requirements to regulators.

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:**

In line with the overall design and structure of the proposed standard that follows the flow of an audit, we suggest that the requirements pertaining to group audits be presented within each relevant part of the proposed standard.

Alternatively, there could be a combination of (a) and (b), where group specific requirements are contained in a separate part of the proposed standard and group considerations relating to parts 1-9 of the standard are included within each relevant part of the proposed standard.

**Suggested amendments to the Mapping Documents**

ISA Paragraph Reference	ISA for LCE Paragraph Reference	Proposed Wording Change	Comment
N/A	Various	N/A	<p><i>Upon review of the Mapping Documents, it was noted that in a number of instances the bulleted lists used in the ISAs have not been used in the proposed standard. Instead, the lists have been included in a paragraph format.</i></p> <p><i>Instead of assisting with making the proposed standard easier to read, the removal of the bulleted lists makes the proposed standard more difficult to read and more complicated, resulting in longer sentences than what is suggested in the CUSP Drafting Principles and Guidelines.</i></p> <p><i>We suggest that the IAASB considers each case where the bulleted lists in the ISAs have been removed from the proposed standard and determines whether they should be introduced into the proposed standard.</i></p>

## Suggested amendments to the Mapping Documents

ISA Paragraph Reference	ISA for LCE Paragraph Reference	Proposed Wording Change	Comment
ISA 200, paragraph. 18 and 22	Part 1, paragraph 1.4.1.	<p>ISA 200.22(b) is relevant to <del>and</del> <u>an</u> ISA for LCE audit and should be incorporated into Para. 1.4.1:</p> <p><i>The auditor shall comply with all relevant requirements, <u>unless the requirement is not relevant because it is conditional and the condition does not exist or unless paragraph 1.4.3. applies.</u> A requirement is relevant when the circumstances of the audit addressed by the requirement exist.</i></p>	<p>ISA 200.22(b) is relevant to an ISA for LCE audit and suggest that it be included in paragraph 1.4.1. of the proposed standard since there are a number of conditional requirements contained in the proposed standard.</p>
ISA 210, paragraph 19 and 20	N/A	N/A	<p>Paragraphs 19 and 20 of ISA 210 and paragraph 51 of ISA 700 (Revised) are not included in the proposed standard.</p> <p>However, in the “Comparison” column of the Mapping Document it is noted, for example, that “... (e.g., this requirement could be added “back” for that particular jurisdiction).”</p> <p>It is understood, based on correspondence with the IAASB (email from Amy Fairchild, dated 2 November 2021), that “the explanation in the Mapping Document was referring to the potential ability to add additional requirements at the jurisdictional level, as deemed appropriate for the jurisdiction circumstances and were permitted by local laws or regulation. This concept</p>

**Suggested amendments to the Mapping Documents**

ISA Paragraph Reference	ISA for LCE Paragraph Reference	Proposed Wording Change	Comment
			<p><i>wasn't intended to be new or unique to ISA for LCE, but rather to be consistent with how many jurisdictions already use IAASB standards, including the current suite of ISAs. For instance, the UK adds additional requirements to the ISA to account for UK Company law and other matters - ISAs (UK). Some other examples would be Germany, Australia &amp; New Zealand who amend or add to ISAs to meet local circumstances and legislative requirements. The requirements which were flagged with this explanation were deemed by the task force to be rare and normally specific to unique jurisdictional matters, and so would be the type of areas where this may be appropriate."</i></p> <p><i>We suggest that the wording in the "Comparison" column be updated to make it clearer that should a requirement be added back by a jurisdiction, the audit would no longer be performed in accordance with the proposed standard, but instead in accordance with that jurisdiction's ISA for LCE standard.</i></p>
<p><i>ISA 220 (Revised). Paragraph 19</i></p>	<p><i>Part 3, paragraph 3.2.5(b)</i></p>	<p><i>Throughout the audit engagement, the engagement partner shall:</i></p> <p><i>...</i></p> <p><i>Remain alert, through observation, inspection of audit documentation and making inquiries as necessary, for <del>evidence of non-compliance with</del></i></p>	<p><i>We suggested that the wording in the proposed standard be more closely aligned to the wording in paragraph 19 of ISA 220 (Revised) because it reflects the most up-to-date terminology used by the IESBA.</i></p>

## Suggested amendments to the Mapping Documents

ISA Paragraph Reference	ISA for LCE Paragraph Reference	Proposed Wording Change	Comment
		<i>breaches of relevant ethical requirements by members of the engagement team.</i>	
ISA 220 (Revised), paragraph 39	Part 3, paragraph 3.2.10.	The engagement partner shall: (a) <u>Obtain an understanding of</u> <del>Understand</del> the information from the firm's monitoring and remediation process that has been ...	In terms of Paragraph 5.1.2 of the CUSP Drafting Principles and Guidelines, the term "obtain an understanding" should be used, rather than the word "understand".  We suggest that the term "obtain an understanding" be used instead.
ISA 300, paragraph 12	Part 5, paragraph 5.5.2.	N/A	There is no mapping/relationship between paragraph 5.5.2. and paragraph 12 of ISA 300, that is, there is no link between the two paragraphs.  We suggested that paragraph 5.5.2. be removed from being mapped to paragraph 12 of ISA 300 and rather be mapped to the correct ISA 300 or other ISA paragraphs or denoted as an additional requirement beyond those required by the ISAs.
ISA 330, paragraph 17	Part 7, paragraph 7.3.15.	"... the auditor shall make specific inquiries to understand the deviations and their potential consequences. <u>The auditor shall determine</u> <del>including</del> whether: ..."	Paragraph 17 of ISA 330 requires that the auditor "shall make specific inquiries to understand these matters and their potential consequences, and shall <u>determine</u> whether: ..." whereas, paragraph 7.3.15. of the proposed standard requires that: "If deviations from controls, upon which the auditor intends to rely, are detected, the auditor shall make specific inquiries to

**Suggested amendments to the Mapping Documents**

ISA Paragraph Reference	ISA for LCE Paragraph Reference	Proposed Wording Change	Comment
			<p><i>understand the deviations and their potential consequences, including whether: ...”.</i></p> <p><i>The proposed standard has “lost” the work effort verb of “determine” and only requires the auditor to “make specific inquiries to understand”. The verb “determine” is high on the “Work Effort Spectrum” and is a strong “work effort verb” – it should not be lost.</i></p> <p><i>We suggested that paragraph 7.3.15. of the proposed standard be amended to introduce the work effort verb “determine”.</i></p>
<p><i>ISA 402, paragraph 10</i></p>	<p><i>Part 7, paragraph 7.3.17.</i></p>	<p><i>If the entity uses the services of a service organization, the auditor’s understanding of the information system shall include:</i></p> <p><i>...</i></p> <p><i>(d) Controls at the service organization relevant to the entity’s transactions; and</i></p> <p><i>(e) The controls applied to transactions with the service organization.</i></p> <p><u><i>When obtaining an understanding of controls, the auditor shall evaluate the design and implementation of relevant controls</i></u></p>	<p><i>Paragraph 10 of ISA 402 requires the auditor to perform design and implementation (D&amp;I) of controls. However, this requirement has not been included in the proposed standard.</i></p> <p><i>Risk identification and assessment at the service organisation cannot be achieved without performing D&amp;I.</i></p> <p><i>We suggest that paragraph 7.3.17. of the proposed standard be amended to include that the auditor performs D&amp;I of controls identified, as required by paragraph 10 of ISA 402.</i></p>

## Suggested amendments to the Mapping Documents

ISA Paragraph Reference	ISA for LCE Paragraph Reference	Proposed Wording Change	Comment
		<p><u>at the entity that relate to the services provided by the service organization, including those that are applied to the transactions processed by the service organization.</u></p>	
<p>ISA 450, paragraph 12</p>	<p>Part 8, paragraph 8.2.1.</p>	<p>N/A</p>	<p>There is no mapping/relationship between paragraph 8.2.1. and paragraph 12 of ISA 450, that is, there is no link between the two paragraphs.</p> <p>Paragraph 8.2.1. does, however, link to paragraph 9 of ISA 450, which has already been mapped.</p>
<p>ISA 540 (Revised), paragraph 36</p>	<p>Part 8, paragraph 8.5.2.(a)</p>	<p>N/A</p>	<p>There is no mapping/relationship between paragraph 8.5.2.(a) and paragraph 36 of ISA 540 (Revised), that is, there is no link between the two paragraphs.</p> <p>We suggested that paragraph 8.5.2.(a) be removed from being mapped to paragraph 36 of ISA 540 (Revised) and only be mapped to paragraph 33 of ISA 540 (Revised).</p> <p>If there is no other paragraph within the proposed standard that can be mapped to paragraph 36 of ISA 540 (Revised), then it may appear that this paragraph of ISA 540 (Revised) has been excluded from the proposed standard.</p>

## Suggested amendments to the Mapping Documents

ISA Paragraph Reference	ISA for LCE Paragraph Reference	Proposed Wording Change	Comment
			<p><i>Does the broad requirement regarding fair presentation and the compliance framework adequately address paragraph 36 of ISA 540 (Revised)?</i></p>
<p><i>ISA 550, paragraph 18</i></p>	<p><i>Part 6, paragraph 6.5.5.(b)</i></p>	<p><i>In exercising professional judgment as to which assessed risks are significant risks, the auditor shall determine whether the assessed risks associated with related party relationships and transactions are significant risks. <u>In making this determination, the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks.</u></i></p>	<p><i>Paragraph 18 of ISA 550 requires the auditor to “treat identified significant related party transactions outside the entity’s normal course of business as giving rise to significant risks”. This requirement has not been included in the mapped proposed standard paragraph(s) alongside paragraph 18 of ISA 550.</i></p> <p><i>This is a significant requirement that should be included in the proposed standard and suggest that it be incorporated.</i></p>
<p><i>ISA 560, paragraphs 15-17</i></p>	<p><i>N/A</i></p>	<p><i>N/A</i></p>	<p><i>The proposed standard does not address paragraphs 15-17 of ISA 560. However, paragraphs 15-17 are a direct extension of paragraph 14 of ISA 560 that has been included in the proposed standard.</i></p> <p><i>Situations may arise during the audits of LCEs where paragraphs 15-17 of ISA 560 may be applicable. If these paragraphs are not included, potential LCEs will be precluded from being audited in accordance with the proposed standard.</i></p> <p><i>We suggest that paragraphs 15-17 of ISA 560 be included in the proposed standard.</i></p>

## Suggested amendments to the Mapping Documents

ISA Paragraph Reference	ISA for LCE Paragraph Reference	Proposed Wording Change	Comment
<p><i>ISA 700 (Revised), paragraph 43-45</i></p>	<p><i>N/A</i></p>	<p><i>N/A</i></p>	<p><i>The proposed standard does not deal with (contain requirements) Other Reporting Responsibilities within the Auditor's Report.</i></p> <p><i>Instead, Other Reporting Responsibilities are dealt with in the Supplemental Reporting Guide.</i></p> <p><i>It is important to include requirements (as opposed to non-authoritative guidance) on Other Reporting Responsibilities, which may be missed if the Supplemental Reporting Guide is not consulted or referred to.</i></p> <p><i>LCEs may need to report on matters such as non-compliance with laws and regulation, and public sector entities often have other reporting responsibilities.</i></p> <p><i>We suggest that the proposed standard includes requirements related to Other Reporting Requirements and the Supplemental Reporting Guide retains the illustrative auditor's report illustrating the reporting of Other Reporting Requirements.</i></p>
<p><i>ISA 700 (Revised), paragraphs 53-54</i></p>	<p><i>N/A</i></p>	<p><i>N/A</i></p>	<p><i>The proposed standard does not deal with supplementary information.</i></p> <p><i>Supplementary information (not required by the applicable financial reporting framework to be presented with the audited financial statements) may be common to LCEs and therefore may be encountered during the audits of LCEs.</i></p>

## Suggested amendments to the Mapping Documents

ISA Paragraph Reference	ISA for LCE Paragraph Reference	Proposed Wording Change	Comment
			<p>Examples of such supplementary information may be:</p> <ul style="list-style-type: none"> <li>• Detailed Income Statement.</li> <li>• Statement of Comprehensive Income and Statement of Financial Position for tax purposes.</li> </ul> <p>We suggest that paragraphs 53-54 of ISA 700 be included in the proposed standard.</p>
ISA 705 (Revised), paragraph 24	N/A	<p><u>If the modification results from an inability to obtain sufficient appropriate audit evidence, the auditor shall include in the Basis for Opinion section the reasons for that inability.</u></p>	<p>Paragraph 24 of ISA 705 (Revised) has been omitted from the proposed standard.</p> <p>Even though the Supplemental Reporting Guide mentions that reasons for the inability to obtain sufficient appropriate audit evidence should be included and the illustrative reports contained in the Supplemental Reporting Guide illustrate the same, this is not a substitute for including a requirement in the proposed standard.</p> <p>We suggest that paragraph 24 of ISA 705 (Revised) be included in the proposed standard.</p>
ISA 705 (Revised), paragraph 27	N/A	<p><u>Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, the auditor shall describe in the Basis for Opinion section the reasons for any other matters of which the auditor is aware that would have required a modification</u></p>	<p>Paragraph 27 of ISA 705 (Revised) has been omitted from the proposed standard.</p> <p>Even though the Supplemental Reporting Guide mentions that the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof,</p>

## Suggested amendments to the Mapping Documents

ISA Paragraph Reference	ISA for LCE Paragraph Reference	Proposed Wording Change	Comment
		<u>to the opinion, and the effects thereof.</u>	<p>should be included, this is not a substitute for including a requirement for this in the proposed standard.</p> <p>We suggest that paragraph 27 of ISA 705 (Revised) be included in the proposed standard.</p>
ISA 710, paragraph 13	Part 9, paragraph 9.6.3.	<p>If the financial statements of the prior period were audited by a predecessor auditor <u>and the auditor decides to refer to the predecessor auditor's report on the corresponding figures</u>, in addition to expressing an opinion on the current period's financial statements, the auditor shall state in an Other Matter paragraph:</p>	<p>An important part of paragraph 13 of ISA 710 has been omitted from the proposed standard. This omission refers to the auditor deciding to refer to the predecessor auditor's report on corresponding figures.</p> <p>We suggest that this part of paragraph 13 of ISA 710 be incorporated into paragraph 9.6.3. of the proposed standard.</p>
ISA 710, paragraph 17	Part 9, paragraph 9.5.1. I (Table C) (per Mapping Document)	N/A	<p>Paragraph 17 of ISA 710 relates to Comparative Financial Statements and is substantially the same (word-for-word) as paragraph 13 of ISA 710 for Corresponding Figures (paragraph 9.6.3. of the proposed standard).</p> <p>However, the Mapping Document appears to incorrectly reference paragraph 9.5.1. I (Table C) of the proposed standard: "Predecessor auditor's opinion regarding the prior year's financial statements included a modification that remains relevant and material to the current year's financial statements." This reference appears not to exist.</p>

**Suggested amendments to the Mapping Documents**

ISA Paragraph Reference	ISA for LCE Paragraph Reference	Proposed Wording Change	Comment
			<i>We suggest that paragraph 17 of ISA 710 be mapped to paragraph 9.6.3. of the proposed standard.</i>
<i>ISA 720 (Revised), paragraph 14</i>	<i>Part 9, paragraph 9.8.2.</i>	<p><i>The auditor shall read the other information, and:</i></p> <p><i>(a) Consider whether there is a material inconsistency between the other information and the financial statements;</i></p> <p><i>(b) <u>Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit.</u></i></p>	<p><i>Paragraph 9.8.2.(b) (mapped to paragraph 14(b) of ISA 720 (Revised)) has not been included in the Mapping Document.</i></p> <p><i>It is suggested that paragraph 9.8.2.(b) be inserted into the Mapping Document.</i></p>