



OPTIONAL RESPONSE TEMPLATE: PROPOSED ISA FOR LCE

Guide for Respondents

- The International Auditing and Assurance Standards Board (IAASB) has published this separate Microsoft Word document for respondents to use for submitting their comments, if they wish. The questions below are from the exposure draft of proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities Management (ED-ISA for LCE), which is available at www.iaasb.org/publications/exposure-draft-proposed-international-standard-auditing-financial-statements-less-complex-entities.
- Respondents are asked to comment on the clarity, understandability and practicality of application of ED-ISA for LCE. In this regard, comments will be most helpful if specific aspects of ED-ISA for LCE are identified and the reasons for any concerns along with suggestions for improvement, are included. Specific suggestions for any proposed changes to wording in ED-ISA for LCE are also welcome.
- **Respondents are free to address only questions relevant to them, or all questions.** When a respondent agrees with the proposals in ED-ISA for LCE, it will be helpful for the IAASB to be made aware of this view as support for the IAASB's proposals cannot always be inferred when not explicitly stated.
- We request that comment letters do not include tables as they are incompatible with the software we use to help analyze respondents' comments.

Comments are requested by January 31, 2022

MR. Eli Goldstein, CPA (Isr.) Chair of Professional Council, Mrs. Galit Niv-Bourshan, CPA (Isr.), Chair of The Israel Auditing Standards Committee

Name of Respondent:

Institute of Certified Public Accountants in Israel

Organization (*where relevant*):

Country/Region/Jurisdiction:

Israel

The Institute of Certified Public Accountants in Israel (hereinafter - "ICPAI") welcomes the initiative, and views the proposed standard as an important step in the application of properly conducted audit to all audited corporations, noting that in Israel all incorporated companies and a range of other corporations are statutorily required to submit audited financial statements.

For many years now, ICPAI has been engaged in adopting the international standards, which over the years have become more comprehensive and detailed, while bridging the gap between the standards' requirements and small practices' ability and necessity to implement these standards in small and less complex entities. So far, our course of action has been to adopt the requirements of the ISAs and offer expedients to LCEs in Israel, in a manner that maintains coherency and ensures, on the one hand, that the principal underlying professional objective of each and every standard is maintained, and on the other hand attend the unique characteristics of an audit conducted in an LCE.

In order to draw up this letter, a number of teams have reviewed the proposed standard (International standard on auditing of financial statements of less complex entities), perused its different provisions and chapters, and strove to obtain insights as to the underlying concepts used in its preparation. The following answers shall focus on issues, on which an emphasis should be placed in the opinion of ICPAI.

Specific Questions

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

1. Views are sought on:

- (a) The standalone nature of the proposed standard, including detailing any areas of concern in applying the proposed standard, or possible obstacles that may impair this approach?

Response:

We believe that the standard should include a statement clarifying that the standard constitutes an stand-alone framework of professional rules covering all aspects of audit.

Since the quality of the audit is not impaired, and since the opinion issued by the auditor refers to products of a properly conducted audit, having adapted the procedures to reflect the entity's complexity, we suggest considering to include in the auditor's report a statement that the audit was conducted in accordance with ISAs.

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

Response:

ICPAI believes that the document referring to technical gaps between the two frameworks of standards (ISAs vs LCEs) "Audits of Less Complex Entities (LCEs) Proportionality of the ISAs to the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the ISA for LCE)" should be published as an official guide that will help auditors detect the gaps between the two frameworks of standards. This document should be revised on an ongoing basis.

In view of the importance of the suggested standards for LCEs, it is crucial that the issue of the guide will not delay the publication of the new standards to LCEs; the guide can be published separately (and not necessarily as part of the standards).

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 amendment to the 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:

It is our understanding that the decision as to which entities the standard will apply to is largely subject to the discretion of the auditors and the body that sets the standards (in Israel - ICPAI). ICPAI believes that the definition of the authority of the standard is in line with the standard's objective.

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

Response:

During the course of the discussions, some of the participants were concerned that the reference to the standard in the auditor's report will lead users and readers of the financial statements to the following conclusions:

1. That an audit conducted in accordance with this standard is "inferior" to an audit conducted in accordance with the full set of ISAs.
2. That entities that fall within the scope of this standard are "less creditworthy" as far as credit providers, investors, and potential users of the financial statements are concerned.

Indeed, an auditor's report issued based on an audit work that was conducted in accordance with this standard contains all material qualitative components leading to an ordinary auditor's report; however, such an auditor's report does include, as suggested, a statement whereby the audit was conducted in accordance with this standard.

ICPAI believes that such a reference to this standard should not be included in the auditor's report, since an audit is an audit, even if it is conducted, under the relevant circumstances only, in accordance with a standard that is tailored to LCEs. Therefore, ICPAI believes that the said reference should be omitted to prevent users from reaching the above conclusions.

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

Response:

Subject to the additional clarifications stated in the above questions, there are not further topics that require clarification.

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

Response:

As mentioned above, ICPAI believes there is no need to inform stakeholders about the type of standard that was applied, since the presumption is that the auditor has implemented those auditing standards that it deemed fit in order to form its opinion on the financial statements under these specific circumstances.

- (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:

The proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority are clear.

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:

Specific prohibitions:

In our opinion, as described in Chapter 5, group audits should not be excluded from the scope of the standard.

Qualitative characteristics:

ICPAI has no comments regarding this section.

5. Regarding the Authority Supplemental Guide:
- a. Is the guide helpful in understanding the Authority? If not, why not?

Response:

The guide is helpful in understanding the standard's authority. It is normal practice in Israel to publish guides that are not considered an integral part of the standard; those guides provide guidance and provisions that help the auditor to implement the provisions of the standard.

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

Response:

The guide is clear, and in our opinion there are no further topics that should be included therein.

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 have no further comments, which should be considered by the IAASB in connection with the chapter dealing with the standard's authority.

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:

- (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:

ICPAI believes that EEMs should be included in the standard as is the case in ISAs. It is our opinion that when users find that the provisions are not sufficiently clear (or detailed), an exposure arises to the auditor.

We believe that in order to serve the purpose for which the EEM is intended, the explanations provided within the EEM should be binding and not only serve to support users. For example, when we assessed the treatment applied to materiality and risk assessment, we reached the conclusion that the provisions of the standard cannot be implemented without requiring that the EEM will be binding.

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 believe that the design and structure of the text is in line with the relevant needs.

Section 4E – Content of ED-ISA for LCE

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:

- 1. Subject to what is stated in the answer to question 3(b) above, ICPAI agrees with the presentation, content and completeness of the chapter, except for the reference to this specific standard in the auditor’s report.
 - 2. ICPAI believes that the proposal to include a specified format and content of an unmodified auditor’s report should be adopted.
 - 3. ICPAI believes that the proposal should be adopted and that example auditor’s reports should be added.
11. With regard to the Reporting Supplemental Guide:
- a. Is the support material helpful, and if not, why not?

Response:

ICPAI believes that the structure of the guide proposed by IAASB is helpful for users.

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

Response:

ICPAI is of the opinion that the structure of the guide is helpful, and no changes and additions are required further to those stated in the guide.

Section 4F – Other Matters

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

Response:

We believe that a structured cycle of updates should be put in place with corresponding updates to the ISA for LCEs occurring concurrently with updates to other ISAs. The standard should be maintained such that any audit conducted in accordance with this standard constitutes an audit that was conducted properly.

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

Response:

In principle, early adoption should be allowed as is generally accepted in most accounting standards.

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:

ICPAI believes that the standard can also be used in Israel.

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

Response:

ICPAI believes that the proposed standard may improve the quality of audit conducted in LCEs, since it provides auditors with a targeted and exhaustive tool for conducting the entire audit process from beginning to end.

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

Response:

ICPAI believes that the challenges arising from any new standard may be overcome. The new standard constitutes an overall conceptual change of the audit approach; therefore, training sessions and seminars, that will allow engagement teams to understand the standard and use it will be in place.

Section 4G - Approach to Consultation and Finalization

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

Response:

We believe that the IAASB should issue a document providing transitional provisions for conducting audits in accordance with ISA for LCE; we also believe that the IAASB should put in place webinars that will allow auditors to learn the subject in depth.

We would also like to ask that such additional documents preparation will not delay the publication of the 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:

ICPAI often deals with translation issues, and the challenge is not specific to this standard.

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:

ICPAI believes that a year and a half is a perfectly reasonable period of time to make preparations for effective implementation of the standard.

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:

It is our opinion that in a regulatory environment where all companies are required to submit annual audit reports (as is the case in Israel), there are many entities, which are subject to audit in accordance with ISA 600; however, the level of complexity of the components is low, and therefore such entities can be audited under the audit rules proposed in the ISA for LCEs. ICPAI believes that a sweeping ban on the inclusion of entities that are subject to audit under ISA 600 within the entities that may be audited in accordance with ISA for LCEs may lead to the standard's becoming less relevant.

We would like to note that many Israeli companies are incorporated as part of a group due to certain reasons; therefore, such a sweeping ban may exclude from the standard's scope relevant entities that should fall within that scope.

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:

ICPAI is of the opinion that a sweeping exclusion of all group audits from the framework is incorrect; and therefore, we are concerned that the standard will not be applied.

- 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:

The result would be that we will have to exclude from the scope of the standard many companies that theoretically can be audited under the ISA for LCEs; in such a case, we will have to audit such companies in accordance with other ISAs, and this may lead to the standard's becoming a dead letter.

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

Response:

Example 1 - A shareholder that holds a company that provides services; the earnings accrued from the provision of services are invested in other entities (subsidiaries), such as companies that hold real estate, and other income-generating companies; the execution of other investments through separate entities (due to tax considerations) is a very common practice in Israel.

Example 2 - a company that includes its manufacturing activity in one company and its marketing activity in another company due to business and tax considerations.

Example 3 - an active entity that establishes a subsidiary for the purpose of executing new R&D activities; again - a common practice in Israel.

- 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:

ICPAI prefers option: (2)

We would like to note that opting for option 2 will not cancel the option available for standard setting entities and regulators in each jurisdiction to add considerations/quantitative thresholds, that will assist auditors to determine whether an entity may be audited under ISA for LCEs.

We would also like to point out that the rules framework of the ISA for LCEs as per Section A6 of the Authority Appendix (p. 64) does not limit regulatory entities in terms of their ability to expand the list.

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:

ICPAI prefers alternative (a). (Due to the reasons listed in the text).