



1 Grange Wood
Grammar School Lane
West Kirby
Wirral
CH48 8BU
UNITED KINGDOM
Tel No: ++ 00 44 151 625 7042

By Email

LCE Response-IAASB

Dear Sirs

Kudos International is a proud member of the Forum of Firms, and has been established for almost 10 years. We have developed our own audit programme which has two key characteristics which differentiates it in the market place:

- It has a different approach already on smaller audits; and
- It moves away from a checklist approach and rather uses prompts aligned with the ISA's to enable firms to conduct a robust audit which is tailored to the circumstances of the client.

The technical director at Kudos, Alun Morgan, has more than 30 years experience in advising SMP's throughout the world on many matters but especially in drilling down what needs to be done by SMP's to comply with complex auditing requirements.

We would like to congratulate the LCE taskforce on producing a first class document which adds significant value to SMPs that are looking to undertake audit work in a fashion which is ISA compliant. It summarises the audit requirements of the ISA that would apply to many private and smaller entities very well.

However, Kudos strongly believes that going down the Standard route is the incorrect decision. Whilst maybe two years ago the decision to go down the route of a single LCE standard may have been correct, the current issues the IAASB faces in finalising the document illustrate that perhaps this approach needs to be revisited.

From a tactical perspective, the issuing of this document as a stand alone auditing standard has significant problems to implementation and use that would largely disappear if rather than a standard it would be treated as authoritative guidance or even "Application Material for LCE's" if we were to use IAASB terminology.

As we see it at Kudos, the LCE standard has a number of problems when it comes to implementation:

- There is no reduction in work- it is just a clarification- Our audit programmes would not change at all if this standard was implemented (indeed as stated below, the only change would be to increase documentation). The three examples the IAASB notes in its request for comments, don't really reduce work. For example, with ISA 402 the standard suggests that Type 1 or 2 reports are not necessary, but this just codifies what we have been telling member firms. As Andrew Brathwaite says in one of the LCE briefing videos, the LCE standard does not mean less work, but the right work. (We note that Andrew references our audit programmes in this session)
- Good audit programmes already scope out vast checklists for a practical approach (there is nothing which suggests that every matter raised in an ISA has to be addressed)
- The LCE actually increases work and documentation as opposed to the full standards as there is a requirement to document and justify the LCE decision.
- Using the LCE results in a watered down audit report (this is probably unavoidable)
- Many countries may not implement as there is no need to- countries with high audit exemption thresholds. The FRC have already stated that they are unlikely to approve this for use in the UK. The issue of in country approval is largely irrelevant if it is an advisory document
- The difficulties with what to do with Group audits largely disappears if our suggestion of application material is progressed (it is no longer mission critical, as ISA 600 in all its iterations can be proportionately applied)
- The IAASB issue with how to define an LCE becomes less mission critical
- Again, the issue of how to update the LCE standard becomes less sensitive if it is only application material.

Obviously, one shouldn't give up because something is hard, but here, what is hard, will not be used. We state this as the level of work doesn't decrease, and key countries may not implement.

We would strongly encourage the IAASB to consider how SMPs could be better supported for audit quality by IFAC. Even down to assurance reporting being educated on. And educate providers and firms, and regulators that auditing is not just doing checklists!

Yours Sincerely

Alun Morgan