

Willie Botha, Technical Director
International Auditing and Assurance Standards Board
529 5th Avenue
New York
New York 10017

Our ref: MJL/RW

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Dear Sirs

MHA Monahans is pleased to provide a response to the International Auditing and Assurance Standards Board's (IAASB) request for feedback on its Exposure Draft: Proposed International Standard on Auditing of Financial Statements of Less Complex Entities (LCE). We are wholly supportive of the IAASB's objectives to provide a high-quality standard tailored for the audits of less complex entities. Our comments on the specific questions asked by the IAASB are as follows:

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?**
- (b) The title of the proposed standard.**
- (c) Any other matters related to ED-ISA for LCE as discussed in this section (Section 4A).**

We agree that the proposed standard should be stand alone in nature as it facilitates the implementation into our audit methodology and will be easier for audit teams to follow.

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?

Yes we agree.

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?**
- (b) Are there unintended consequences that could arise that the IAASB has not yet considered?**
- (c) Are there specific areas within the Authority that are not clear?**
- (d) Will the Authority, as set out, 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?**

Apart from group audits (see Q22) we agree with the scope of the ISA for LCE.

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.

Apart from (d) in specific prohibitions, we agree with the proposed limitations.

5. Regarding the Authority Supplemental Guide:

- (a) Is the guide helpful in understanding the Authority? If not, why not?**
- (b) Are there other matters that should be included in the guide?**

Yes the guide is useful. Most judgement will be around whether the audit is in scope. The actual content of the standard for LCE represents a common sense approach to these types of audits. Therefore the guide will be most useful in helping to decided when the LCE standard can be used.

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

No comments.

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).**
- (b) The approach to the objectives of each Part of the proposed standard (see paragraphs 78-80).**
- (c) The principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management (see paragraphs 81-84)**
- (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.**

We like the approach taken by the IAASB to structure the standard to match the workflow of an audit. It is also very helpful having the EEM in blue paragraphs alongside the requirements for ease of use.

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).

Specific communication requirements - All communication requirements to management/those charged with governance should be within one section (similar to ISA 260) rather than spread out amongst the standard.

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.

5.2.12. Going concern

Some owner managed businesses do not prepare long term forecasts, so we agree with the proposed approach where an assessment has not been made by management.

5.4.1 We agree that communication should be made with management during the initial stages of the audit, this is usually done via a meeting. We do not think a formal communication is appropriate. We also think that these communications should include a discussion of materiality to obtain the views of management or those charged with governance.

6.5.4 Significant Risks

More guidance could be given as to what should be classified as a significant risk. Historically audit firms have been reluctant to identify more than the two mandatory risks as significant.

6.6.1 Specific inquiries of management

This is still written as applicable to larger companies. Management's process for identifying and responding to the risks of fraud in the entity can be very simple for an owner managed business. The standard should be cognisant that the control environment in a small or medium sized entity is very different to that in a large/listed entity.

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.

We agree with the approach taken in part 9. We encourage the IAASB to include the UK ISA requirement for the auditor's report to explain to what extent the audit was considered capable of detecting irregularities, including fraud.

11. With regard to the Reporting Supplemental Guide:

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

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

No comments.

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.

See Q9.

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?

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

The main challenge will be getting the audit methodology in place and providing training to staff. Initially we envisage a period of getting used to the two sets of auditing standards, the existing ISAs and the new standard for LCE.

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

Future updates should be based on early feedback from users of the standard and regulators. It is also important that the LCE standard maintains its link to the main ISAs so it remains useful and relevant.

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

Early adoption should be allowed so users can benefit from improvements to the standard.

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

We do not think the ISA-800 series should be included in the ISA for LCE. These are specialist areas and better kept within the existing documents ISA 800 and ISA 805.

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.

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

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

a) We expect the proposed standard can, and will, be used in our jurisdiction.

b) Subject to the inclusion of group audits, the proposed standard meets the needs of auditors and will be welcomed.

c) The main challenge as noted previously will be amending our systems, training staff, and having dual audit standards.

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?

No comments.

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

The standard already has practical guidance, and we would also welcome a continuation of the webinar series that the IAASB has been delivering, focussing on implementation issues.

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.

No comments.

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.

We agree that early adoption should be encouraged. We think a period of at least 12 months should be given after the approval of the standard for the effective date.

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.

We strongly think that group audits should be included in the scope of ED-ISA for LCE. The whole purpose of the standard is to recognise that most audits globally are simple in nature in comparison to large and listed audits. This is also true for group audits.

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?

(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?

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

a) We would use the standard even if group audits are excluded. b) We estimate that 75% of group audits would be able to use the ISA for LCE. c) Lots of entities structure themselves as groups, to either protect assets or for tax purposes. Some entities transfer a property or factory to a holding company. The audit of the group is no more complicated, apart from requiring consolidation. We believe the LCE standard should be within scope for group audits that are not complex.

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.

Option b. The proxy option would rule out simple group audits based on rules alone, without auditors being able to use professional judgement. Some group audits have only 2 entities, one of which is overseas. This type of audit has one component auditor which reports on the overseas entity. Both entities are simple, and the group audit is not complex, yet it would be scoped out of using the LCE standard if bright lines were used.

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?

No comments.

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.

Option a. We think the standard would be better to keep group requirements separately.

Yours Faithfully



MHA Monahans