

OPTIONAL RESPONSE TEMPLATE: PROPOSED ISA FOR LCE

Guide for Respondents

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

Comments are requested by January 31, 2022

Name of Respondent: Jean-Luc Barlet

Organization (*where relevant*): Mazars

Country/Region/Jurisdiction: Global (all countries)

General Comments on Proposed ISA for LCE

MAZARS is pleased to submit this letter in response to your invitation to comment on the Proposed ISA for LCE.

MAZARS is an international, integrated, and independent partnership, specialising in audit, accountancy, advisory, tax and legal services. Operating in over 90 countries and territories around the world, we draw on the expertise of more than 42,000 professionals – 26,000+ in Mazars' integrated partnership and 16,000+ via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

MAZARS supports all initiatives taken to enhance audit quality for the benefit of the public interest and welcomes the opportunity to add our views to the debate.

Overall, we understand and support the objectives of the ED ISA for LCE.

- The ISA for LCE is a positive initiative as many audit engagements are not PIE nor complex engagements.
 - We are in favour on LCE standards which will contribute to a **higher quality and a better scalability of the audit if they are properly designed and used**
 - **Consistency** within the different jurisdictions is key and so the guidance has to be clear on the scope.
 - These standards should bring **added value** in the audit of LCE so focused only such entities.
 - With the current trend to ever increasing regulations and standards for PIEs, it seems that we could move in the future to a **distinct standard approach between PIEs & non-PIEs** and therefore the ED LCE could seek for further simplification.
- We commend IAASB having achieved such a LCE ED standard in a short period of time with resources constraints.
- We acknowledge there is an effort made to **reduce the length of the requirements** :
 - The number of requirements is less than 300 compared to the + 800 even though some ISA are excluded of the ED (ISA 600, 610, 701 and ISA 800 series).
 - In terms of pages number : ED ISA LCE contains less than 100 pages (but without the glossary and the 2 supplemental guidances on authority and auditor reporting, without the 2 mapping documents) to be compared to the + 1 000 pages (including 250 pages related only to requirements) with all ISA of the current "full" audit standards.

However, we have the following comments:

- There might be **potential unexpected consequences among some stakeholders**.
 - Some could consider that ISA for LCE means less audit risk therefore less work hence less audit fees. However, the objective of this standard is not less work but the right amount of work to reach audit quality in a more efficient manner. On the contrary, very often, as it is not possible to rely on controls during audits of less complex entities, a more fully substantive approach will be taken resulting into more work and more time spent. Hence, this standard will not lower cost for the audit firm.
 - The existence of two international set of standards (ISA for LCE and "full" current ISA) and possible local standards leading to "reasonable assurance" might confuse users of the audit report.
- The **buy-in and the level of effective and consistent use** will be important to take them into account by the IAASB :
 - It is critical that the ED is supported by the regulators in the different jurisdictions. Regulators might also struggle with this and may not allow this proposed standard to be used for statutory audits.
 - It is difficult to determine which entities are LCEs as the definition is subjective and leaves room for interpretation and professional judgment, which is useful, but we are aware that in some jurisdictions this standard will not be endorsed. Therefore, their application can vary among jurisdictions, thereby reducing the comparability of audit reports issued under this standard. The current proposed authority of the ISA for LCE contains an important role for "subjectivity" in judging as to whether the ISA for LCE is applicable or not and might also lead to possible discussions with local and international regulators on the applicability of the proposed standard for a specific audit, resulting in auditors not using this standard in order to avoid such discussions. Therefore, while a LCE entity is not in general a transnational entity and is aimed to address local needs of "SME", we advocate for a certain consistency worldwide in the auditing standards.
 - So, we believe that it is needed to get a consensus among stakeholders is needed so that the new standard does not create additional expectation gaps or confusion among the different stakeholders within a same jurisdiction or is not applied, also in a context where audit quality is key for all audits whatever the complexity and size of the entity.
 - We wonder if and how the SMO (Statement of Membership Obligations) will address the fact that there may be some jurisdictions that do not allow to adopt the ISA for LCE.
 - This ISA for LCE could also create additional barriers between the large audit firms and SMP (Small and Medium Practitioners) audit firms. A two-tier market may be the result. Especially for SMP audit firms, it will be difficult to implement and maintain two methodologies including training for regular audits and for LCE audits.
- Apart from the detailed mapping documents which is essential for technical follow-up, **there is no overview to present to the different stakeholders on what are the main changes in substance...because there is no substantial**

change (apart from excluding the ISA 600, 610, 701 and 800 series) : as an audit is an audit, there is a need to reach reasonable assurance, there is indeed no substantial change or difference especially, as ISA 315 R, ISA 540 R have been retrieved.

ISA for LCE is intended to result in the same level of assurance as the ISA. The detailed mapping documents provided for reference are excellent for auditors but will not likely be studied or even read by the users of the financial statements subject to ISA for LCE. We believe an Appendix that serves as an executive summary to describe the key elements of difference between ISA for LCE and the ISA and describe the support for the same level of assurance for ISA for LCE is essential. It will have an educational role of the IAASB towards the different stakeholders.

- **Within Mazars, we have organized a walkthrough with a sample of experienced Mazars practitioners of some countries around the world (based in Brazil, Canada, South Africa, the Netherlands, the UK, and France).**

This “blind test” has been done without giving them too many details and directions.

Their feedback as follows are quite consistent with one another:

- they find the standard too long for a very simple entity. It is also long compared to some existing shorter national standards. For them, it is also long when compared to the “smart” application of the current standards that already enables them to use the “full” current ISA according to their knowledge, experience and professional judgment in a proportionate manner, especially when taking into account the CUSP project that will impact the “full” current ISA.
- they do not believe that the extent of audit procedures is reduced. The LCE standard is not significantly different from the ISA, therefore, it was not clear to them how the LCE standard will impact audits of less complex entities, or why they would not be able to apply the ISA to those audits.
- The opinion being given under the LCE standard is the same as that under ISA, the point is that whether stakeholders will think that this opinion is somehow degraded because the full set of ISA is not being used.
- they believe that an example of documentation would be key. Here, the update of the Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities (“IFAC SME guide”) would be really helpful. The need for the use of the LCE standards should be driven by users (for example, shareholders and lenders). Since it is not clear how the LCE standard is different from the ISA, users may not understand the benefit of its use and could expect a decrease of audit fees.

- As the ISA for LCE are based on the Drafting Principles and Guidelines being developed by the Complexity, Understandability, Scalability and Proportionality (CUSP) Working Group of the IAASB, **some believe that this ED ISA for LCE could be applicable for all engagements except for PIE, and that there would be soon a set of ISA for PIE and another one for non-PIE**

One of the main aspects to consider is the format of the ISA for LCE. We advocate for a digitalisation format as part of the **electronic handbook eIS** released beginning of November 2021. While we are aware that the IAASB’s role is not writing a methodology, we believe that the update of the IFAC SME guide” is essential **especially for SMPs** as it enables to have a foundation of a risk model (risk matrix, combination, sample sizes) and it will help bring some consistency for quality.

- The standard raises a certain number of **practical challenges** (maintenance process; succession of auditor and link with ISA 510, link with CUSP Complexity Understandability Scalability Proportionality project) that we will detail hereafter.

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?

- Yes. We are in favor by principle to have a standalone standard for LCE which is very often a counterpart to perform audit in many countries for non-PIEs. In a context of increased uncertainty, many going concern issues and other difficulties because of the economic crisis, we believe it is in the interest of the general public-interest to make sure the audit of LCE is done with high quality audit standards without any impediment.
- The work done by the task force in transforming the ISA to the standalone format is a great achievement in improving the accessibility to the audit standards.

- One of the main differences between ISA and ISA for LCE is the lower number of Application and Other Explanatory Material (in ISA for LCE named EEM). The Application and Other Explanatory Material forms part of the basis for the auditor's professional judgement.
- Notwithstanding the concerns we express elsewhere in this response, if we agree a separate standard for Less Complex Entities is needed, we agree with the decision to propose a new standard class within the IAASBs suite of standards "International Standard on Auditing (ISA) for Audits of Financial Statements of Less Complex Entities (ISA for LCE). However, if the separate standard ISA for LCE progresses, the standard should incorporate a definition for Less Complex Entities to avoid broad inconsistency in application across jurisdictions, leading to lack of comparability and other unintended consequences.
- Definition of "complex matters or circumstances" (paragraph 27 of the ED- ISA for LCE) – how is this defined, difficulty of treating complexity as a binary issue (yes or no) – rather complexity should be evaluated on a continuous scale. We suggest that Paragraph 27 should be referenced as being from the Explanatory Memorandum ED ISA for LCE.
- However, we acknowledge it is a complicated challenge to work a on a stand-alone ISA for LCE standard and we know that some still believe that
 - this answer may be not useful and wonders what is the difference between tailoring ISA to apply to a non-complex engagement, and applying the LCE standards?
 - this answer could be seen as a provisional answer meanwhile the CUSP Complexity Understandability Scalability Proportionality project will be completed.
 - practical implementation and post-implementation review will be key to make sure whether the application of the ISA for LCE will result in a more efficient audit for the professional compared to a "smart" application of the existing ISA.
 - the best answer to solve the LCE issue would be
 - one set of standards for all entities including LCEs;
 - ISA developed on the concept of "think small first / building blocks" according to the facts and circumstances of the audited entity, within the CUSP Complexity Understandability Scalability Proportionality project and simplify all standards ;
 - using plain English;
 - using more visuals and infographics;
 - taking full advantage of technology and develop Standards not necessarily for book-format, but for electronic format.

(b) The title of the proposed standard.

- We do not fully support the title: While we understand the objective of not taking a quantitative approach as it defers from one jurisdiction to another, the term LCE is new and may create some questions regarding the differences between LCE and SME. In addition, when reading "less complex entities", the next question is "less than what?". So our suggestion would be "ISA for Non-Complex Entities"

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

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. In addition, we ask what the status of the current § "considerations for smaller entities" will be.

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?

- No, we believe it will not be easily implementable as this too much country specific changes – making the standard not really international, comparable etc, leaving room for potential quality failures.
- The authority is left to the decision of the jurisdiction, the regulatory bodies, the firm than to the engagement team.
- But we believe the question is more about scope more than authority, as authority will be vested in respective the decision of each jurisdictions first.
- The prohibited entities seem to be reasonable in A7 a) – c). We acknowledge the issues in defining PIE that is applicable in a global context. Linking the definition to IESBA is a good way to mitigate this. However, the latest definition of the PIE needs to be used.

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

- Yes, we believe there are potential unintended consequences that could detract from a high quality ISA for LCE audit and thus not be in the public interest as follows:
- Has there been an analysis of the impacts if some jurisdictions refuse to adopt it, especially some those with a strong voice in the international debate?
- Will the status of the adoption will be part of the SMO? If firms or networks decide not to allow the use of the standard this might confuse stakeholders and impair the public interests understanding of the standard.
- Most firms are expected to have both kinds of audits (ISA and LCE) – this could create the requirement of firms to create parallel processes in terms of acceptance/continuance of clients, risk assessment of engagements, audit program and templates development, training and development of staff, monitoring, etc., leading to redundancies, and tools, and sub-optimal use of resources.
- “Group audits” have been scope out, but there could be group audits that are non-complex – therefore, the assertion of the Board that group audits should always be scoped out is too prescriptive.

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

- A9 (page 66/170) states “... LCE is inappropriate for the audit of the financial statement if an entity exhibits one or more of the following characteristics”. In the last paragraph in A9, it is stated “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 presence of one characteristic exhibited by an entity does not necessarily exclude the use of the [draft] ISA for LCE for that entity. Notwithstanding that professional judgment is used in determining whether the [draft] standard is appropriate to use, if there is uncertainty about whether an audit is an audit of the financial statements of an LCE, the use of the [draft] ISA for LCE is not appropriate.”
- Those sentences seem to contradict each other and might may confuse the auditors regarding the applicability of the standard. So we would recommend the change.

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

The two categories: Specific exclusions (A3-7) and Qualitative aspects (A8-9) are clear. But the challenge is the definition of PIE differs from one jurisdiction to another.

- (e) Is the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions clear and appropriate?

Yes. Although we see a challenge as PIE definition and adoption of the LCE standard can differ considerably even within the same region while advocate for a consistent approach.

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.

- We agree with (a) and (b) but in our view, the priority should be first given to the audit of single entities without waiting for group audit being incorporated. See further under responses to questions 22 through 26. For qualitative characteristics see responses to question 3 (d) and (e).
- Using “qualitative characteristics” in a consistent way is very subjective:
 - For the qualitative characteristics the auditor is expected to use professional judgement. There might be instances where one auditor in year 1 and a successor auditor in year 2 come to different conclusions regarding the complexity assessment. In rare situations this might confuse the different stakeholders.
 - What can be a challenge is the possible divergence between the auditor who decides to use the ISA for LCE and the client who is reluctant as he has a covenant within the bank agreement where it is noted to have a report under ISA.
 - We believe it will be rare but probably more important at the start of the implementation: there might be also facts or circumstances appearing throughout the year that makes the ISA for LCE not applicable any longer. How will the transition be done? Especially, what would happen when the entity has a complex issue in one year (so not within LCE standard scope) but no for the other years (can be within LCE scope) – how would this transition between ISA and LCE happen?
 - Audit firms and auditors may define “complexity” differently, especially for IT complexity and estimates, thereby creating variations between application of the LCE standard. Hence the need to update the IFAC SME guide to ensure consistency for quality. If the auditor is required to make too many interpretations, he may be reluctant to use a new framework and would go rather use an accepted framework which is current set of ISA.

5. Regarding the Authority Supplemental Guide:

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

- The Authority Supplemental Guide is helpful for the intended users. However, issuing a supplemental guide outside the standard is not in accordance with the intention to keep the standard comprehensive and with only limited guidance and explanatory material outside the standard itself.
- Regarding the content of the guide, we believe it could be perceived as a “check list” approach. Some characteristics make it very binary especially for the start-ups and seems to remove professional judgment especially with the “tick marks”. “One size fits all” approach may be difficult to apply.

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

Regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions should be encouraged to use this guidance and to add potential territorial amendments to the ISA for LCE standard and to include monetary thresholds according to their local jurisdiction.

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

In other sections of the ISA for LCE standard there are specific requirements for documentation included. Since the decision to use the standard is fundamental for the auditor and for regulators and quality controls, clarity in documentation needs is important. We suggest that specific requirements for documentation are added to the Authority section.

Group audits are excluded in the proposed ISA for LCE (see further responses to questions 22 through 26). The applicability of the ISA for LCE for components could be addressed already in the Authority section. This is commented in paragraph 157 in the Explanatory Memorandum. We believe that, to the extent possible, ISA for LCE should be possible to use based on circumstances in the context of the component rather than from the group audit and group auditor's perspective. Component auditor may already not rely on statutory audit? Or said another way – scoping out group audits should not also automatically scope out the component.

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).

As mentioned earlier, a big work has been put to reduce the length of the ISA while keeping the substance to be able to reach the reasonable assurance. An audit remains an audit so the standard has been simplified but not the requirements;

However, as mentioned in our overall comments :

- It is key to explain the differences between an audit under ISA for LCE and the current ISA so that there is no increased expectation gap regarding the quality of the audit.
- For that, it is key to mention that the standard has been simplified to
 - include éléments which were non applicable (e.g. ISA 610)
 - avoid justifying why certain requirements are not applicable, especially in the current ISA as soon as a requirement is « the auditor shall consider » it is perceived as a requirement to document why it is not applied even if it is not applicable or not relevant.

As the ISA for LCE standard is principled-based, it is key to have implementation guides, IFAC SME guide updates and examples.

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

No specific comments

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

No specific comments, since these are the same as for ISA.

- (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.

(i) EEM serves the intended purpose.

(ii) The intention to include limited amount of EEM is positive and will allow the auditor to use professional judgement to a larger extent.

(iii) The approach to include EEM in the body of the standard makes the standard more reader friendly for both practitioners and for other stakeholders especially since they are less extensive than in the ISA.

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).

The overall design and structure of ISA for LCE is good and the principle-based approach is important to emphasize. The requirements are presented in a more understandable way. We note however, that some of the requirements still include several “sub-bullets”. If possible, IAASB could reconsider the use of several levels of bullets.

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.

Part 1: Fundamental concepts

1.2 Ethical requirements - How would the word “relevant” be interpreted within various jurisdictions?

1.2.1 EEM: If firms policies require an engagement quality review, this could be an indication that the audit is complex. At the same time the reason to appoint an engagement quality reviewer can be to respond to other risk management reasons, i.e. initial audit, audit performed by an auditor with recently obtained signing rights or similar reasons.

1.4.1: The wording in this paragraph should be modified. The documentation requirements when a requirement is relevant or not should involve an amount of professional judgment. In the draft standard is says “A requirement is relevant when the circumstance of the audit addressed by the requirement exists” In our view the wording should be changed to “A requirement is relevant when **in** the circumstance of the audit the auditor, using his or her professional judgment, consider the requirement relevant.” We suggest that specific documentation requirements should be included to Part 1 or as EEM to this paragraph including that clearly not applicable requirements do not require further documentation. This could be included in section 2.5.4. Also 1.4.4 covers professional judgment and could be also referenced.

1.4.3 – alternative procedures – we need more guidance on what these alternative procedures could be to help the implementation.

It would be advisable to repeat § A2 and A8 of ISA 620 which relate to the definition of an expert. Furthermore, it would be appropriate to specify that the cases where it is necessary to call in an expert can reveal a complex situation.

In addition, a linkage should be created concerning the following 3 subjects (relevant sections of the ED ISA LCE - 7.3.5 to 7.3.19): sampling, tests of effectiveness of controls, tests of details and substantive analytical procedures, if possible in an EEM, otherwise in an application guide.

Part 2: Audit evidence

It seems that the LCE standard does not cover auditor's communication to TCWG with regards to independence.

2.5 General: ISA for LCE emphasize the auditor's use of professional judgement in performing an audit according to ISA for LCE. Extended room for professional judgement raises the question of how extensive this should be documented. In our view, IAASB should consider if further guidance (requirement, EEM or other support material is needed to clarify documentation needs for engagement quality procedures. In our view, this is one of the areas where ISA for LCE could clearly mark a distinction between ISA and ISA for LCE, especially in audits of small and micro entities.,

2.5 EEM: In the second paragraph about oral explanations, the following part of the text from ISA 230 A5 missing "... but may be used to explain or clarify information contained in the audit documentation." Especially for LCE this possibility is important to state in the standard.

2.5.1: The documentation requirements are in line with the ISA. ISA and ISA for LCE are two separate audit standards. In our view, this requirement could be more precise in "... to enable an **auditor experience with audits according to ISA for LCE**, having no previous connection with the audit to understand: "

2.5.7: In LCE, and owner managed entities in particular, communication to management and those charged with governance is often informal and oral. Significant communication items would of course require more detailed documentation and often in writing. Other communication tends to be more of compliance nature (refer to section 8.8 as an example). We suggest that this is further elaborated in EEM to this paragraph.

Part 3: Engagement Quality Management

3.2.6: The proposed standard includes a requirement that "the engagement partner shall take action, as appropriate in the circumstances, including: (a) Following the firm's policies or procedures to evaluate the threat; and (b) Consulting with others in the firm". The reference to "in the firm" is in our view too prescriptive. Smaller audit firms might use other sources for consultation such as experienced colleagues in other firms, within their network or from professional institutes where they are members.

Part 4: Acceptance or Continuance

- 4.4 – Will users understand the difference between the two standards. We suggest to have an overview of the main changes between ISA for LCE and ISA for each ISA.
- 4.6 – Initial audit engagements – same scope of procedures as ISA. How would procedures need to be revised if prior year audit was under ISA?
- 4.8.4 – Matters to be included in the engagement letter – independence matters not included. We believe the engagement for LCE should require independence mention similar to ISA 200
- 4.8.4 (a): There is a requirement to record that the audit will be undertaken using the ISA for LCE. We believe that it should be enough to state that an audit will be undertaken. To some extent 4.8.5 allow this (i.e. reference to national GAAS that allow use of ISA and ISA for LCE.

Part 5: Planning

- 5.1.1 (b) – more guidance on if materiality would be applied differently from ISA or additional elements if the target is a standalone standard.

- 5.2.1 – no definition of “key members of engagement team” has been provided.
- 5.2.8 – at what point will work of management’s expert needed but still scoped in as LCE (reference to qualitative characteristic of complexity). Need more guidance if not covered in the standard.
- 5.2.9 – same as above.
- 5.3.2 – implementation guidance on materiality will be useful.

5.2.2 EEM: The intention in the EEM is good and relevant. It is, however, stated that “... a brief memorandum prepared **“at the completion”** of the previous audit ...”. We believe that the limitation “at the completion” should be changed to **“after the completion”** to avoid unnecessary time constraints for the practitioners.

5.4: In smaller LCE communication with management (TCWG often not applicable) this communication is often made orally or in a more informal way. We suggest that the standard allows oral communication, based on professional judgement, in this respect, with a reduced level of documentation.

5.5.1: We propose that the requirement to document changes is amended with an “if applicable”.

Part 6: Risk identification and Assessment

General comments related to Part 6: IAASB has incorporated the changes made in ISA 315 revised 2019. Changes to ISA:s is largely driven by issues and events in the PIE-segment. Controls and the control environment in a LCE are far less developed and documented than in other entities. It may therefore be useful for the proposed standard to reduce the level of audit procedures in relation to these elements for an audit of a LCE.

In Part 6 there are more EEM included giving the auditors more guidance in how to interpret the requirements related to the risk assessment for LCE. We concur the need for more extensive EEM in the important risk assessment phase of the audit as included in the proposed standard.

- 6.2.2 (b) – should it be “preliminary analytical procedures?”
- 6.2.3 – other factors to consider: There are other factors to consider when assessing the risk of error:
 - 1) economic, accounting and other recent developments
 - 2) estimates
 - 3) transactions outside the normal course business
- 6.3.5 - inherent risk factors - this assessment should be part of the acceptance procedure. We have to conclude that these risk factors have low impact, otherwise we cannot use the LCE standards to begin with.
- 6.3.5 – understanding the entity’s internal control system – no reduction from ISA. We believe further simplification should be investigated with examples of reduction in documentation and work effort provided in the implementation guidance.
- 6.3.11: In ISA 315 A170 a good example is included related to scalability. The first bullet in that example is relevant for many LCE. We suggest that this example (first bullet) is included as EEM to the proposed standard.
- 6.3.6 – blue box – last paragraph - The standard keeps all significant requirements for internal controls assessment in previous paragraphs and then recognizes that "some or all aspects of the control environment may not be applicable or less relevant" in LCE, which seems to be contradictory. See our proposal in 6.3.5.
- 6.3.14 (c) - This is quite unusual to be considered in a LCE audit. The existence of risks for which substantive procedures alone are not enough should be a trigger to not consider an entity a less complex entity.
- 6.3.14 – blue box – last sentence - This paragraph indicates that there would be no presumption of significant risks related to (1) revenue recognition and (2) management override of controls, which seems to not be appropriate and not consistent with paragraph 6.4.2 and 6.5.7.

- 6.5.7 (b) - Existence of significant related party transactions is a risk factor, but why consider that a presumed significant risk and create a difference with ISA?
- 6.5.11 – blue box – will be disruptive for audit, if conclusion with regards to use of LCE standard is changed at or towards the end of the audit.
- 6.5.7: The proposed standard allows that the presumed significant risk in revenue recognition is a significant risk can be rebutted. In 6.5.7 (a) (ii) it should be stated “if not rebutted”. Refer to our comment to 6.4.2 as well.
- 6.8.1 (a) states “Key elements of the understanding obtained regarding **each** of the aspects of ...”. The proposed standard is intended to be used for a wide range of sizes of entities from very small to larger SME meeting the authority requirements for less complexity. In our view it should be included in the documentation requirements rather than in the EEM that the amount of documentation should reflect the bullets included in the EEM to 6.8.

Part 7: Responding to Assessed RMM

- In general requirements are same as ISA.
- 7.2.1 blue box – Agree with this point. More guidance to what extent we can rely on the control environment and how we are able to sufficiently document this is relevant for LCE companies, where for owner-managed business oversight procedures are often in place but not formalized or documented.
- 7.4.1 – Going concern – similar to ISA requirements.
- 7.4.19 onwards – inventory – does not address other procedures e.g. price testing

General comment: The order of obtaining audit evidence in ISA is through Test of Controls, Substantive procedures (Substantive analytical procedures and test of details). In Part 7 the order is Substantive procedures (test of detail and substantive analytical procedures) and test of controls. In the EEM to 7.3.1 the order is as in ISA. We think that the order of planned response to the risk on material misstatement should be the same within Part 7 and preferably with the order as in ISA.

7.4.8: We suggest that item (b) (ii) could be moved to the risk assessment part since this could be performed in that phase of the audit.

7.4.19: The requirement to attend physical inventory counting is often discussed among auditors. Today (and not only for LCE) many entities use reliable perpetual inventory systems that are regularly updated to support existence of the inventory. In other cases, and probably more common in LCE, the inventory count is the only measure for management to confirm existence of inventory and to calculate cost of goods sold. We suggest that IAASB reconsider the requirements in ISA 501 and in part 7 of the proposed ISA for LCE to better correspond to how management determines existence of inventory. Inventory should be treated as any other balance in respect of assessing the risk and audit response to the assessed risk. Attending inventory count would then be one important audit response both from an internal control review procedures perspective and substantive procedures and could form part the auditors sufficient and appropriate audit evidence.

7.4.26: The EEM to this paragraph is very good and should be applicable in ISA as well under similar circumstances.

Part 8: Concluding

8.5.2: In (c) the auditor is required to evaluate that sufficient appropriate evidence has been obtained in respect to accounting estimates. In 8.5.5 the same requirement is included in general terms. We believe that this should only be required once.

- 8.5.1 – “the auditor may consider...which may necessitate a modification to the terms of engagement” – this reconsideration will be impracticable at the end – if concluded that LCE is not applicable, will cause major impact on the audit.

- 8.9 – Specific documentation requirements – difference between ISA and LCE standard is not clear.
 - We also notice that the subject matter 'Related Parties' receives a lot of attention.
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.

Regarding the completeness, we believe the IAASB should replace the required report in para. 9.4.1 with the requirements set forth in ISA 700.

We also suggest the IAASB also add some paragraphs of ISA 700 (Revised) .51 and .52 as well as ISA 705.15 (no piecemeal opinions) and 27 in section 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.

General: We believe that using the electronic handbook and make hyperlinks will be helpful.

All requirements in the ISA, applicable for LCE, are included as requirements in ISA for LCE. In our view this means that an opinion based on ISA for LCE has the same level of assurance as ISA. We think that the auditor's report should be the same for ISA and ISA for LCE except for reference to the applicable ISA used. Requiring that the auditor's reports should be different would not be a simplification rather introducing two parallel systems for forming opinions.

(a) The presentation, content and completeness of Part 9 is in line with other parts of the proposed standard and the intentions to issue this proposed standard. The table approach to modified opinions is good.

(b) Already under ISA the templates available are used more or less as specified formats amended to reflect specific circumstances (i.e. ISA 570, 701, ISA 720, modifications and other amendments under ISA). In our view the intention should be the same under ISA for LCE. That is, the auditor's opinion should be the same as under ISA but with reference to ISA for LCE. Certain aspects not relevant to an LCE could be prohibited.

In the auditor's report there is no possibility to refer to a website for the auditor's responsibility. In our view the reference to a website, as in ISA, should be allowed.

(c) Providing examples is helpful for the practitioners.

11. With regard to the Reporting Supplemental Guide:

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

Yes, but should be part of the standard to make it "standalone" and should be embedded in an electronic manner to be user-friendly.

- (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 responses under 9 above.

Section 4F – Other Matters

13. Please provide your views on transitioning:

(a) Are there any aspects of the proposed standard, further to what has been described above, that may create challenges for transitioning to the ISA?

- There may be circumstances where a client ordinarily audited using the LCE standards, by virtue of a one-off “complex” transaction may fall outside of the scope of the LCE standards in one particular year. How would the transition to ISA from LCE and back be handled?
- Transitioning between ISA for LCE and ISA will probably be relatively rare. When transitioning occur, there are aspects that could be added as examples:
- If the reason is that the LCE establishes a group, is it possible to use ISA for the group audit and ISA for LCE for the individual entities? This is relevant in case group audits are not allowed under ISA for LCE.
- If prior year was audited according to ISA for LCE and current period according to ISA, will the auditor have to comment on this as “other information” as is expected when prior year was not subject to audit or if that audit was performed by another auditor. This should be addressed in the ISA as well. Further, will the opening balance need to be (re)audited according to ISA as well, as required in ISA 510?

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

In our view IAASB should issue support materials to assist practitioners in transitioning from ISA for LCE both during an ongoing audit and when the transition is made between two financial years. The material referred to in paragraph 77 is not suitable for this.

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

- Not really: we advocate for a stable platform especially for SMPs. So we suggest that changes are made not only as “conforming” changes but if they are really relevant for the LCE.
- This is an important subject. As stated in paragraph 144 in the Explanatory Memorandum, recent changes to ISA are more directed towards PIE and complex entities. When changes are made it is important that the changes in ISA are analysed and challenged based on the characteristics of LCE before added to ISA for LCE. This might lead to that differences between the standards increase over the years.
- What is key is to make the regular update of the mapping document as it is fundamental to support the roots of the ISA for LCE.
- We also wonder how and if the ISA for LCE will benefit from the CUSP project?

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

Yes, we support an early adoption. We should follow the general way like for the other standards.

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

Yes. ISA 800 and ISA 805 reports are also used within LCE-entities for various stakeholders such as agencies providing grants or government support requiring that the receiver of the grant reports the usage of the resources obtained and

that these reports are subject to assurance by an auditor. These assurance engagements are often based on the statutory audit performed with adding procedures adequate for the circumstances. There need to be an "easy way" to use the 800-series for ISA for LCE as well. In our view it is important that ISA for LCE can be the basis for these type of assurance engagements as well.

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.

The standard can and will probably be used in different countries, subject to approval by the legislator. Indeed it depends on whether individual countries' regulators and standard setters allow. See Overall comments for elements to take into account.

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

Yes, however, the proposed prohibition to use the standard for group audits will heavily limit the potential use.

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

The SME handbook produced by the SMP committee was including 2 volumes among which one was giving examples.

Implementation deserves examples of documentation and toolkits / videos for training.

As mentioned in paragraph 141 in the Explanatory Memorandum, the use of two different standards will have challenges when designing further guidance, tools and training. We believe that it is important to keep the principle-based approach in ISA for LCE and to encourage firms and users.

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?

The consultation process has been extensive and the task force and IAASB have spent considerable time in include different stakeholders' comments. In the finalisation we find it important not to add requirements in ISA for LCE unless clearly omitted in the draft and to deal with implementation and guidance.

Section 4G - Approach to Consultation and Finalization

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

The following materials will be useful (not exhaustive list):

- Information material to external stakeholders from the issuer of the standard to emphasize the new standard and implications for the entities subject to audit under ISA for LCE.
- Implementation guides (including the IFAC SME guide update) to practitioners, firms and other users of ISA for LCE (i.e. regulators).
- Support guidance or documentation examples for areas where the auditor has used professional judgement.
- We reiterate the need for an update of the IFAC SME guide which includes examples. We believe that a simple ABC example will help the buy in and implementation of the standard.
- Support for transition from one year to another year.

Guidance will be need for the following topics especially as a kind of basic methodology. This will help SMPs to build in a consistent and quality approach:

- Materiality
- Risk matrix / audit risk model
- Sampling
- Combined assertions approach

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.

Translations are always a challenge and also deserves time to get a quality translation. The proposed standard as well as ISA are originally written in English. When translating words where the English language uses different words with intended differences, other languages might have only one word. To the extent possible IAASB should as much as possible try to use words with broader meaning in order to reduce the risk that translation wrongly interpret nuances in the language. We believe that CUSP will help further in the translation. We also believe that there could be translations made available through the electronic version of the handbook.

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.

Since the standard is voluntary to use effective date is less important. We suggest that the effective date should be as soon as possible with permission to early adoption, subject to territory permission.

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.

Yes, we believe that group audits need to be included in ISA for LCE. There are many groups that are not complex and are formed based on other reasons than extensive M&A activities. Group audits should be allowed for non-complex groups. But we believe that priority in terms of standard setting and application guidance should be given on LCE for single entity at short term.

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?

Yes. See answer to question 17 b).

- (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?

Difficult to answer as there are many qualitative criteria and it is subjective.

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

Simple structures such as having a specific asset such as real estate property in a separate entity.

A holding structure to prepare for change in ownership due to retirement or sale of the company (non-complex transaction). These set-ups are often tax driven.

Subsidiaries (components) that are not material components, i.e. situations where the parent company has a dominate part of the group such as a smaller sales company in another country.

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.

In our view (b) is the preferred method allowing the auditor to use professional judgement in determining if ISA for LCE can be used for Group. Circumstances to consider in determining complexity in a group could be for example:

- Complexity linked to the number of territories, the number of entities, the number of component auditors;
- Complexity in the application of accounting principles used by the group accounting (valuation of assets, acquisitions/divestments, contingent payments);
- Common applied financial reporting framework, both for the group financial statements and for the components. Existence of significant components (size or risk).

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?

The revised standard ISA 600 has just been adopted by the IAASB in December 2021; We believe it would have been the appropriate place to include scalability directly in the ISA 600 standard under revision. Now, we consider that the ED LCE should be released as first step and then in parallel the IAASB could work facts and circumstances where the ED LCE could be used for non-complex groups.

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.

We believe that a separate part for group audits is the preferred option. Including the requirements throughout the standard would make it more complex to apply ISA for LCE for a single entity.