

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

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| Name of Respondent: | <u>Anton Dieleman, Chair of the Dutch Assurance and Ethics Standards Board</u> |
| Organization (<i>where relevant</i>): | <u>NBA</u> |
| Country/Region/Jurisdiction: | <u>Netherlands</u> |

General Comments on Proposed ISA for LCE

Response: [Please include here comments of a general nature and matters not covered by the questions below.]

The NBA appreciates the opportunity to respond to this Exposure Draft. We are still concerned that this proposed standard will not achieve its purpose as described in our earlier response to the Discussion Paper.

Our response deviates from other European countries. We do understand that in other countries the situation is different and the need for a separate LCE audit standard might be higher than in the Netherlands. Our response is based on the situation in the Netherlands where only for medium sized or large entities, using the maximum threshold from the EU, statutory audits are obliged.

We do have the following general remarks which are partly addressed below in the section “Specific Questions” (which contains more technical issues):

1. We are worried that this proposed standard will lead to an additional expectation gap in the market. Users may perceive this as an audit of less quality. Preparers may assume that less work needs to be done and that audit fees could be reduced. It will be difficult to explain that the level of assurance does not change and that the core requirements are more or less the same. This does not reduce administrative burdens for entities and/or practitioners.
2. We are afraid that this proposed standard will create additional barriers between the big audit firms and SMP 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.
3. We foresee juridical and jurisdictional challenges. It is difficult to define which entities are LCEs as the definition is subjective and leaves room for interpretation. Competent authorities might also struggle with this and may not allow this proposed standard to be used for statutory audits. If the standard will not be applicable in various situations, the added value seems limited. Within our mandate -which excludes statutory audits- we will not implement this LCE Standard considering these issues.
4. From discussions we learned that the current content is not what practitioners and stakeholders expected from this standard. The requirements and the core procedures are more or less the same. The application material is reduced to essential explanatory material. However, these changes appear to be limited and do not lead to a fundamental change. Furthermore, the application material in the ISAs is necessary to understand the requirements. This is stated in ISA 200 paragraph A60. Therefore it is not possible to reduce the application material in the way that is done in the LCE. The fact that the level of assurance needs to be the same and therefore the audit procedures as well, is in our opinion not compatible with a fundamental different standard for LCEs.
5. The transfer to the full ISAs is cumbersome. If there is one element of complexity, the LCE Standard is not applicable. In practice, this will happen regularly with for example accounting estimates. Furthermore, the exclusion of ISA 600 is undesirable. Group audits are not necessarily complex and should be included when the group audit is fairly straightforward. Otherwise, the LCE Standard will not be applicable for many audits.

We still believe that the answer to the LCE problem is:

- one set of standards for all entities including LCEs;
- ISAs developed on the concept of think small first;
- using plain English;
- taking full advantage of technology and develop Standards not necessarily for book-format, but for electronic format.

Therefore we recommend to put more effort on the Complexity Understandability Scalability Proportionality (CUSP) project and simplify all standards.

Given our general remarks and concerns, we have not answered all specific questions below. Our general comments and our specific responses should be considered together.

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 are concerned that this proposed standard will not achieve its purpose. As most of the requirements of the ISAs are incorporated in this standard, the added value is doubtful in our opinion. It does not necessarily require less audit procedures, however it may be seen as a lower-quality audit. From the discussions we had with practitioners and stakeholders this perception was confirmed. Therefore we still consider the simplification of all ISAs a better alternative as we mentioned in our earlier response.

- (b) The title of the proposed standard.

Response:

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

Response:

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:

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: We question whether the definition of LCE and the applicable scope are implementable. It is uncertain whether the competent authority in the Netherlands will allow the use of the standard for statutory audits. If the standard will not be allowed for statutory audits, the value thereof will be rather limited. Furthermore, the definition of LCE and the qualitative characteristics are subjective and may lead to discussions about the interpretation thereof. From the discussions with practitioners and stakeholders we learned that this is a major issue. When the definition and the applicability of the standard are not clear, the added value is limited.

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

Response:

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

Response:

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

Response:

- (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:

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:

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

Response:

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

Response:

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:

Section 4C – Key Principles Used in Developing ED-ISA for LCE

7. Views are sought on the key principles used in developing ED-ISA for LCE as set out in this Section 4C. Please structure your response as follows:
- (a) The approach to how the ISA requirements have been incorporated in the proposed standard (see paragraphs 74-77).

Response: As mentioned earlier, most ISA requirements are also applicable in this proposed standard. Therefore we repeat our recommendation to simplify all ISAs.

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

Response:

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

Response:

- (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: The purpose/status of the EEM is not fully clear. In ISA 200 paragraph A60 is stated that the whole text of an ISA -including the application material- is relevant for understanding the objectives of the ISA and the appropriate application of the requirements of an ISA. EEM seems to have a different approach which is not in line with the ISAs.

The content of the EEM is sometimes quite complicated and consists of long text. We recommend exploring whether further reduction and simplification is possible.

The presentation of EEM is a bit confusing as it stated before, between and after the requirements. We recommend presenting them in a uniform way after the requirements.

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: The grouping to follow the 'flow of the audit' makes sense. However, auditors will need to get used to this structure.

Section 4E – Content of ED-ISA for LCE

9. Please provide your views on the content of each of **Parts 1 through 8** of ED-ISA for LCE, including the completeness of each part. In responding to this question, please distinguish your comments by using a subheading for each of the Parts of the proposed standard.

Response: The proposed standard contains some complicated, long sentences which are transferred/duplicated from the ISAs. We recommend making short, simple sentences. We also notice that the subject matter 'Related Parties' receives a lot of attention. Less attention could be paid to this subject matter.

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:

11. With regard to the Reporting Supplemental Guide:

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

Response:

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

Response:

12. Are there any areas within Parts 1–9 of the proposed standard where, in your view, the standard can be improved? If so, provide your reasons and describe any such improvements. It will be helpful if you clearly indicate the specific Part(s) which your comments relate to.

Response: We recommend considering whether the work of internal auditors (ISA 610) might be useful if this function exists within the (international) group where the LCE is part of.

Section 4F – Other Matters

13. Please provide your views on transitioning:

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

Response: It is cumbersome when an auditor needs to transition to the ISAs if there is a single complexity in an audit. This creates a burden and might be difficult to explain to an audited entity. This might happen more often than expected.

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

Response:

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

Response: We think that this might be difficult in practice. It will require extensive efforts for audit firms to implement new updates regularly.

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

Response:

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

Response: We recommend at least to explain why the ISA-800 series are not included and how these type of audits interact with the LCE audit standard.

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: See Authority of the standard.

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

Response: We are in doubt whether this proposed standard meets the needs of auditors and stakeholders. If the standard does not diminish the amount of work, then it will be difficult to explain especially to auditors why the ISAs are not used. We fear users do not understand the difference between this standard and the ISAs and that audits with this standard might be seen as lower-quality audits.

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

Response: We fear that this standard cannot be implemented in this way as it remains unclear when an entity is less complex and what the true benefits are of using this standard. The requirements and the work effort are more or less the same as in the ISAs and therefore this standard does not have distinctive value.

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

Response:

Section 4G - Approach to Consultation and Finalization

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

Response:

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:

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:

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: Group audits are not necessarily complex. If the group audit team performs all audit procedures by themselves or only one or a few component auditors are involved, this should be included in this proposed LCE Standard. We also recommend explaining how practitioners should deal with the interaction between statutory audits that will be performed using the LCE audit standard and group audits that will be performed using the ISAs.

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:

- (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:

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

Response:

- 24. If group audits are to be included in the scope of ED-ISA for LCE, the IAASB is looking for views about how should be done (please provide reasons for your preferred option):
 - (a) The IAASB establishes a proxy(ies) for complexity for when the proposed standard may be used ("Option 1 - see paragraph 169); or
 - (b) ED-ISA for LCE sets out qualitative characteristics for complexity specific to groups (Option 2 - see paragraph 176), to help users of the proposed standard to determine themselves whether a group would meet the complexity threshold.

Response:

We are in favour of Option 1 as this seems to be a simpler, less complex option. Qualitative criteria are subjective.

- 25. Are there other ways that group audits could be incorporated into the scope of the proposed standard that is not reflected in the alternatives described above? For example, are there proxies for complexity other than what is presented in paragraph 169 that the IAASB should consider?

Response:

- 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:

We are in favour of presenting all requirements pertaining to group audits in a separate Part. If a group audit is not applicable, it will be easier to skip these requirements when they are separate.