

31 January 2022

International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 Fifth Avenue  
New York, NY 10017

Via IAASB website at [www.iaasb.org](http://www.iaasb.org)

Dear Board Members and Staff:

Nexia International appreciates the opportunity to provide input on the International Auditing and Assurance Standard Board's (IAASB) Exposure Draft: Audits of Less Complex Entities (LCEs). Collectively our member firms had common views, and this letter attempts to summarize these views. In addition, we encourage all member firms to also communicate in their own individual response letters.

Challenges when applying current international standards on auditing remain to be complexity in applying, understandability and scalability. Decisions and judgments made by an auditor are often supported by varying levels of audit documentation. We understand the desire to create a different set of standards that appear to be less complex to apply, are rightly scalable and allow for more consistent auditor conclusions. However, rather than a different set of standards, providing an application guide to assist when auditing a less complex entity may be more beneficial. A separate standard applicable only to LCEs may create confusion in the market.

First, the most significant questions and concerns has been around the definition of an LCE. The subjective nature of this definition will create confusion and inconsistent conclusions by auditors and entities as to what entities are able to be audited using ISAs for LCEs. Due to this reason alone, the new standard will be difficult to apply.

Secondly, the proposed audit report may imply that an LCE audit carries less weight and importance than a full ISA audit. This might make use of the standard unacceptable in the market. Based on our discussions with various member firms, initial communication with local regulators has indicated that audits performed under the ISAs for LCEs would likely not be accepted. The overarching objective remains to provide the user of the financial statements with reasonable assurance that the financial statements are not materially misstated. This is true for both audits performed under ISAs and ISAs for LCEs, so the audit report should be identical.

Next, certain procedures and reporting were removed from the ISA for LCEs. This could create difficulty when a LCE encounters such items during the audit engagement. The result would likely lead one to believe that if and when these items are encountered, you could not use the ISA for LCEs. In addition, difficulties would arise where unexpected complexities are discovered during the audit forcing the auditor to abandon the use of the LCE standard and move to the full body of ISAs. This might make a cautious auditor unwilling to adopt the standard.

In addition, the use of different terminology may result in different responses and interpretation of the standard. We understand that terminology is critical to ensure users understand the context of the requirements. However, if the new standard is meant to not a lesser standard, we suggest that terminology remain consistent between the full set of ISAs and the ISAs for lesser complex entities. Changing wording for simplicity may result in different meanings when translated to other languages

Lastly, we disagree with the IAASB's proposed exclusion of group audits (ISA 600), noting that less complex group situations are quite common.

Suggested criteria for inclusion could be:

- components only operate within one or few (similar) jurisdiction(s),
- no significant use of component auditors, and
- local know-how is not essential.

In conclusion, we appreciate the boards responsiveness to concerns around the complexity in applying international auditing standards. However, generally we believe there should be one set of set of standards to follow with application material allowing auditors to scale procedures when performing audits of less complex entities.

Yours faithfully



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Nexia International