

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: Rogério Lopes Mota

Organization (*where relevant*): Ibracon

Country/Region/Jurisdiction: Brazil

General Comments on Proposed ISA for LCE

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

First of all, we really appreciate the IAASB's effort to develop a standard for audits of Less Complex Entities (LCEs), in addition of working on the scalability of the existing ISAs, considering that this topic has been discussed for a long time. However, even contemplating the fact that the proposed standard is more friendly because of the reduced number of pages, we understand that it does not address the issues raised by practitioners of LCEs, especially as the requirements are the same as for ISAs in order to achieve a reasonable assurance. Thus, we are afraid that with the same work effort, the practitioners can have a perception that there is no real benefit in using the standalone standard.

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?

We generally support a simplified approach being presented in a standalone standard. However, prohibition to use some ISAs (top-up) may rend this ISA for LCEs less useful than it would be desirable. We suggest that the IAASB reconsider this restriction, leaving the final decision to the auditor's professional judgement. There would be numerous cases where the fact of applying 'full' ISA to a certain item or assertion does not make the option for this ISA for LCEs invalid.

Additionally, we are concerned that the auditor's reports could create lack of clarity for users or other stakeholders regarding the audit service, as to the nature of an audit engagement conducted in accordance with this standard and how this compares to/differs from an audit performed in accordance with the full-scope ISAs, considering both would achieve a reasonable assurance. This is a particular concern given the current "expectation gap" regarding public perception as to what an audit is and is not. This is challenging because we believe that the principal difference between the ISA for LCE and full-scope ISAs resides in lack of application material and "permission" to exercise a greater degree of professional judgement in determining how to execute requirements.

We also suggest the Board provide a more specific definition of the population to which this standard would be applied. And consider whether it may be valuable to provide requirements that may not directly reflect the ISA requirement but address the appropriate audit work level to an LCE.

- (b) The title of the proposed standard.

We agree with the title for the proposed standard.

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

No.

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?

We agree with the proposed conforming amendments to the Preface.

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?

We have some concerns in the implementation of the standard. In general terms, we agree with the specific prohibitions and qualitative characteristics considerations, although defining what constitutes a LCE is still challenging. Maybe defining common characteristics for these entities could help better identifying when to apply this specific standard.

The analysis of whether the standard is appropriate should not be made based on complexity only, especially because for some set of entities (e.g., listed ones, public interest entities (PIEs), medium/larger-sized private entities etc), we understand that a reasonable assurance audit conducted in accordance with the actual ISAs is already a widely accepted premise. On the other hand, what level of complexity should present a SPAC (or similar structure) particularly during the period when the funds are not yet invested in acquisitions? Somehow, it contradicts the concept that ISA for LCEs will result in appropriate and sufficient evidence on which to base an audit opinion.

In addition, the Board could consider including some consideration for local jurisdictions' determination of the LCE for their territories.

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

As we mentioned in the first question, as the requirements are the same as ISAs, practitioners of LCEs can feel that there is nothing in this standard that would change what they are currently doing or does provide relief in terms of documentation. Also, we understand market will need to "learn" when to apply this standard: when the audit being conducted is not complex or when the entity being audit met some certain criteria. This can result in unintended consequences, such as led the users and stakeholders to a lack of clarity regarding the nature of work.

Regarding terminology used in the Authority, we suggest that the IAASB work closely with IESBA in terms of the IESBA project to consider the global definition of PIEs. Alignment to the IESBA PIE definition would remove some of the complexity whilst still taking into account jurisdictional differences, quantitative thresholds etc., as these factors are also under consideration by IESBA and it would be preferable to have both a globally consistent baseline as well as alignment in terms of qualitative principles.

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

As mentioned before, we do not believe the characteristics and guidance described in the standard are sufficient to help market driving consistent judgements across entities / audit firms.

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

No. As mentioned in question 3(a), we believe stakeholders will not understand fully the differences between ISA for LCE and full ISAs. Therefore, application of this standard between jurisdictions can differ significantly when evaluating if an entity has the qualitative characteristics of an LCE.

- (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, as it allows the addition of further prohibitions or qualitative characteristics if needed. However, as mentioned above, we are worried about differences in the application of this standard between jurisdictions.

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.

Yes. We agree with the limitations including listed entities and group audits.

5. Regarding the Authority Supplemental Guide:

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

As mentioned before, we do not believe the characteristics and guidance described in the standard are sufficient to help market driving consistent judgements across entities / audit firms. In addition, the IAASB does not usually refer to non-authoritative guidance in authoritative standards, so some may interpret this to mean that it is authoritative,

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

No.

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

The IAASB should include an express mention to highlight that large and complete knowledge of the 'full' ISAs is a precondition for the auditor to be capable of deciding which set is more suitable and to properly apply this ISA for LCEs.

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).

We acknowledge the work of the IAASB to pursue the development of a standalone standard that gives you the same level of assurance (i.e. reasonable assurance) of the full ISAs. However, considering the requirements are the same, we challenge whether the proposed standard meets the needs of practitioners and users.

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

We agree with the approach to the objectives in each Part of the proposed standard.

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

We agree with no further comments.

- (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 agree with the approach to EEM, content and how they are presented, also considering the length of the proposed standard. However, seeing our points expressed in question 6, we are concerned that over time the EEM could not be sufficient, and practitioners lose the understanding of AM of full ISAs.

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).

We agree with the presentation (flow of an audit) and we appreciate the introductory boxes to each part, as well as the specific communication and documentation requirements in each Part, as that will be really helpful to practitioners.

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.

Generally, we believe the IAASB did an excellent job in drafting each of these Parts in the proposed standard, since each Part is clear and concise.

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.

Agree, mainly with the inclusion of the tables which are useful to practitioners.

- (b) The approach to include a specified format and content of an unmodified auditor's report as a requirement?

Agree.

- (c) The approach to providing example auditor's reports in the Reporting Supplemental Guide.

We agree on that.

11. With regard to the Reporting Supplemental Guide:

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

Yes.

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

We recommend including an example of a qualified opinion arising from a limitation in scope and a modified Other Information section, to address completeness.

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.

Please refer to our comments previously provided.

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?

To enhance transparency, the inclusion of a paragraph to highlight the transition from one period to another might be beneficial. Also, the analysis that should be done in case a larger entity can become complex in subsequent periods is an area that needs to be clarified.

There is a lack of clarity regarding situations where a component may meet the criteria to be considered an LCE in accordance with this standard, and the component auditor would plan to use this standard when performing the statutory audit at the component, however, the group entity is not an LCE and the group auditor would need to use the full-scope ISAs. We understand this is under consideration by the IAASB.

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

Supplemental guidance with further examples.

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

Yes.

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

It will depend on if the corresponding ISA also allows early adoption.

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

Yes.

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.

Yes.

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

Partially. As mentioned above, practitioners do not perceive reduction in audit effort, and so there is likely to be little appetite to use the standard and refer to ISA for LCE in the report.

We believe that LCE auditors would greatly benefit from clear guidance as to how to achieve compliance with ISA requirements in an appropriately scaled way for an LCE, e.g., how to approach risk identification and assessment, and through such guidance, be given explicit “permission” to perform certain procedures differently/ to a lesser extent than for a more complex entity and/or to reduce related audit documentation. We believe that these key challenges have not been addressed in developing the ISA for LCE, and instead, by removal of the majority of the application guidance, it has been left to auditors of LCEs to develop their own interpretations in terms of how to comply with the requirements.

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

As mentioned before, the qualitative characteristics of the companies that can be subject to this audit standard.

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?

In our view no.

Section 4G - Approach to Consultation and Finalization

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

No further suggestion.

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 further 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 would recommend at least 24 months.

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.

We agree with the exclusion because it can increase the length of the proposed standard considerably. In addition, trying to embrace ‘everything’ would diminish the relevance of the current 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?

Yes.

- (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?

We cannot quantify this percentage.

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

Holding companies, no revenue-generating entities or companies structured for tax purposes but operates as one.

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.

If group audits are to be included in the scope of the proposed standard, option 1 would be preferable.

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?

A clear criteria would be needed to avoid different judgements being made by auditors on whether or not a group audit is within the scope of this standard. We understand it will be difficult to describe qualitative characteristics that would not result in significant subjective judgements.

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 would prefer (a) approach.