



Exposure Draft : Less Complex Entities

Response from the Public Accountants and Auditors Board (PAAB), Zimbabwe

31 January 2022

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Further information about PAAB can be obtained at www.paab.org.zw

Any questions arising from this submission should be directed to:

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Our ref: PAAB/LCE22/1

ED : International Auditing Standard on Less Complex Entities

PAAB is pleased to present its comments on this Exposure Draft, which have been reviewed by PAAB's Committee for Auditing Standards (CFAS).

Response to Specific Matters for Comment

Detailed comments on the Specific Matters for Comment are provided below.

We hope this is a helpful contribution to IAASB's work in this area.

Admire Ndurunduru
Secretary, PAAB

Elles Mukunyadze
Standards and Research, PAAB

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:

Elles Mukunyadze

Organization (*where relevant*):

Public Accountants and Auditors Board

Country/Region/Jurisdiction:

Zimbabwe

General Comments on Proposed ISA for LCE

Response: [Please include here comments of a general nature and matters not covered by the questions below.] Generally in support of the standards and applaud IAASB on this. We believe there will be huge uptake in our jurisdiction because of the high percentage of less complex entities.

Specific Questions

Section 4A – Overarching Positioning of ED-ISA for LCE

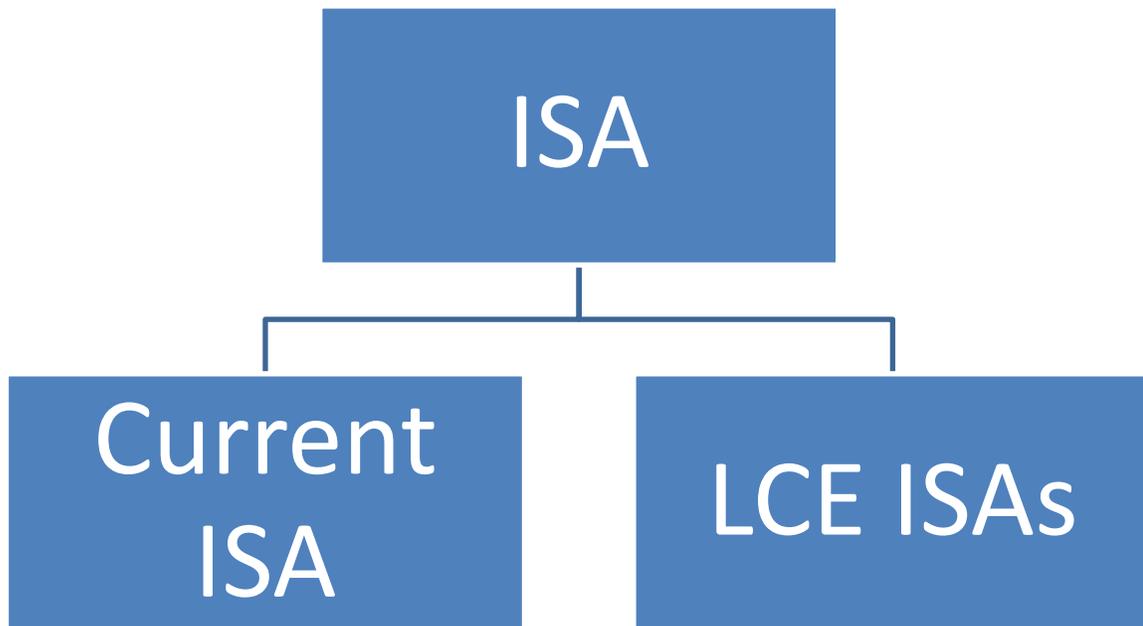
1. Views are sought on:

- (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: The standalone nature of the standard is a big issue because IAASB is introducing a different framework which is distinct for the current ISA. It is important to note that entities/audits that will be affected by this new framework are already applying full ISA in their audits, so it is important that this new framework is not perceived to be lesser/inferior as compared to the full ISA. In our jurisdiction, the uptake of IFRS for SMEs was greatly hindered by just the perception that it is an ‘inferior cousin’ to the full IFRS. There was a perception that your financial information would change if full IFRS is applied on IFRS for SMEs financials. If the ISA for LCE is going to be adopted for audits that meet the criteria it should be seen in the same light as full ISA. An audit report that refers to the ISA for LCEs does not increase confidence for entities who in the previous years (before ISA for LCE) used full ISA. There could be doubt around whether the same opinion could be given if the same financials are audited under full ISA and this could lead to requests for re-audits especially where a corporate transaction is being envisaged.

Again, an entity that is applying ISA for LCEs may enter into a transaction/event which may lead to it meeting the conditions for complex hence the audit is now done under ISA. If in subsequent years, the effects of that once off transaction are not there anymore and the audit is now done using ISA for LCE. This change from one framework to the next may send wrong message to users who rely on the audit report.

We therefore recommend that ISA for LCE not be published as a standalone standard but rather as a suit of standards with the ISA. See diagram below



The implication of this diagram is whether the standards used for audit are the current ISAs or ISA for LCE, the framework is one and the audit report will just state that the audit has been performed using ISA.

(b) The title of the proposed standard.

Response:

View 1

If the intention from IAASB is to create a set of LCE standards that will have its on distinct process on further development ie will we see new standards being issued to LCE independently of the full ISA and vice versa like the relationship between IFRS and IPSAS. If that is the case, it is import to make the name more distinct from current ISA so that they are not confused as one for example Less Complex Entities International Auditing Standards (LCEIAS). However if the development of future changes is directly linked to changes in the full ISA then the naming is appropriate however see our comments on 1 above.

View 2

Less complex entities is generally not a term that is being used in most jurisdictions or laws. There is risk that entities may think that less complex entities are SMEs. Whilst we support the name, we think that the standard should clear that LCE is not synonymous with SME. We believe that complexity should not be measured in terms of size only.

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

Response: Non

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: We agree

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: A7 is clear and implementable as the considerations are clear cut subject to our comments on 4. The qualitative characteristics leave significant room of judgement and are difficult to apply with consistency from one engagement to the next or from one auditor to the next. The standards also seems self contradictory when it says para A9 *“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.”* It seem that this para is proposing and disqualifying at the same time. We think if any of the following is present, then the standard can not be used :

- The entity’s operations are subject to a higher degree of regulation or to significant regulatory oversight, such as being subject to prudential regulations.
- Transactions are complex or the information system and related processes relevant to the entity’s financial statements are complex such that the data collection and processing involves complex accounting or calculations.
- The entity’s IT environment or IT systems are complex, such as when the IT environment and processes involve highly-customized or highly-integrated IT applications, with internal resources or external service providers that have software development and IT environment maintenance skills to support the IT environment and processes.

Other bullet points could just be secondary indicators.

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

Response: No noted

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

Response: Refer to a

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

Response: Yes to an extent subject to comments already given

(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: The standard allows modification on certain classes. The modification will result in a different set of requirements than what is in ISA for LCE so the question is that can the audit still asserted that they have audited according to LCE where the guidance on applicability is based on what the local regulators says rather than the LCE standard in its current state. i.e After modification, is the standard still the ISA for LCE or its not a modified ISA for LCE. Please provide guidance on how to approach auditing framework issue where some modifications have been done.

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:

Specific Prohibitions

a.i Explicit prohibitions are not necessarily the same with not authorised for use. In some jurisdictions new standards still have to go through a legal process of adoption which is rubber stamping exercise but sometimes take time and the practice on the ground is that entities can already start applying a standard before legal process is complete. We recommend that we only keep explicit prohibitions in that paragraph and leave out the part that talk to standards not being authorised for use.

B Listed entities – we do support the blanket conclusion that listed entities are complex. In recent years we have seen licencing of new exchanges to actually cater for small to medium entities or less complex entities and the requirements in those exchanges are much more relaxed than the traditional exchanges. We do not think that listing a company on an alternative exchange market will necessarily make it complex.

c. “main functions’ use of this term may lead to application of judgement where it is not necessary. We believe that as long as an entity takes deposits from the public even if it is not the main function, it should be prohibited.

d. For groups we also believe blanketly classifying group as complex is not necessary. There are some group, especially if there is no outside shareholder in the group companies that will make them complex. An example is a company that has several properties which it leases out. The structure for tax or other reasons is such that each property is housed in a separate company. But that structure the company is already a group but there is nothing that significantly increases the complexity had all the companies been in one group.

5. Regarding the Authority Supplemental Guide:

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

Response: Yes the guide is helpful

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

Response: None noted

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: Non- identified

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:

We are happy with the approach in developing the ISA for LCEs as to how the ISA requirements have been incorporated in the proposed standard – using the ISAs as a departure point and replicating and adapting these requirements considered core to an audit of an LCE.

We also recommend that Implementation Guidance is issued as soon as possible after the issue of the final standard to support auditors by providing further explanation of the requirements and guidance for carrying them out.

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

Response: We support the approach

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

Response: We agree with the principles

(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: We agree with the content, sufficiency and the presentation of the EEM.

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: We support the overall design and structure of the proposed standard as well as the overall drafting principles

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: We are agreed to the content

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: Yes we agree

11. With regard to the Reporting Supplemental Guide:

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

Response: No exception noted on the reporting supplemental guide

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

Response: None noted

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: None noted

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: There is need to provide more guidance on what will need to be considered from transitioning from ISA for LCE from prior year to full ISA in the current year. Issue that may be considered include a. can an auditor rely on the opening balance that were audited using a different framework,

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

Response: More examples

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

Response: As highlighted there are different pros and cons to each adopted approach. Over time the ISA for LCE should reflect the audit needs of its constituent rather than alignment with ISA.

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

Response: Yes, it should be allowed

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 believe for stakeholder consultation should be done before embarking on the project. ISA 800 is more relevant to complex entities than LCEs

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: We believe that there is need for political buy in so that as any new framework will be compared with the existing. If it is perceived to be inferior, uptake will be low. Key lessons from the low uptake of IFRS for SMEs

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

Response: Yes agreed

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

Response: None noted

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: Not noted

Section 4G - Approach to Consultation and Finalization

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

Response: None noted

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: noted

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: Agreed

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 audit should be included. Factors that makes a group complex or less complex should be the deciding factor and not just a group structure. There are groups whose operation are fairly straight forward and not complex. In some instances the structure is only to achieve a particular efficiency for example admin efficiency/tax efficiency but operations are not complex at all.

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:

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: