



PAFA

PAN AFRICAN FEDERATION
OF ACCOUNTANTS

BUILDING A BRIDGE TO A BRIGHTER AFRICA

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**The Chairman
International Auditing and Assurance Standards Board (IAASB)**

By email

PREFACE

The Pan-African Federation of Accountants (PAFA), is the continental body representing Africa's professional accountants. Our objective is to accelerate the development of the profession and strengthen the voice of the accountancy profession within Africa and worldwide.

Harnessing our unique regional capacity to facilitate input from a wide range of PAOs to present the unified position of the profession in Africa, PAFA presents in the annexure that follows, our response to the Exposure Draft of *proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities Management (ED-ISA for LCE)* issued by the International Auditing and Assurance Standards Board (IAASB).

For further questions or clarification, please reach out to lebogangs@pafa.org.za

Regards

Lebogang Senne
Technical Director

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: Lebogang Senne

Organization (*where relevant*): Pan African Federation of Accountants

Country/Region/Jurisdiction: Africa

General Comments on Proposed ISA for LCE

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

We are supportive of the development of the proposed ISA for LCE, recognising the needs of auditors who perform audits of less complex entities. Although the ISAs are fit for purpose for audits of all sizes, the ISAs have become more and more complex over the years, posing challenges for audits of less complex entities.

The IAASB has taken the right approach in developing a global solution and in recognising the urgent need for a solution.

We encourage the IAASB to carefully consider all the feedback received from stakeholders who will be using the ISA for LCE and to respond to their needs in finalising the Standard. Furthermore, we encourage the IAASB to be creative and innovative in developing solutions to the more contentious topics such as Group Audits.

Specific Comments on the Preface of the proposed standard

We suggest the following editorials to paragraphs P2 and P3 in the Preface:

Editorial to paragraph P2 – Part A of the proposed standard describes “...the specific prohibitions and qualitative characteristics that will make the [draft] standard inappropriate for use in an audit of the financial statements of an LCE...” (extract from paragraph A1 of Part A of the proposed Standard). It does not provide a “...clear description of the types of entities for which an audit in accordance with this [draft] standard has been designed...”:

“Part A sets out the authority for this [draft] standard. A clear description of the *specific prohibitions and qualitative characteristics that will make the [draft] standard inappropriate for use in an audit of the financial statements of an LCE* types of entities for which an audit in accordance with this [draft] standard has been designed - as set out in Part A - is essential so that:...”

Editorial to paragraph P3 – Paragraph P3 as currently written is misleading and contradicts paragraph A11 read with paragraph A6-A7 of Part A and should be replaced with paragraph A11 or an iteration thereof.

“As part of the local adoption and implementation process, legislative or regulatory authorities or relevant local bodies with standard-setting authority may:

(a) Modify, but not remove, the classes of entities in paragraph A.7.(c)(i)-(iv) by, for example, applying quantitative criteria to a class or otherwise modifying as set out in paragraph A.6.; or

(b) Further limit use of the [draft] standard in paragraph A.7.(c)(v) by inclusion of an additional class(es) of entity or through setting specific size criteria (such as using revenue, assets or employee number limits).

Descriptions of the type of entities for which an audit in accordance with this [draft] standard is permitted rest with legislative and regulatory authorities or relevant local bodies. Such descriptions may or may not align with the limitations for use as set out in Part A. The intended scope of this [draft] standard corresponds to the matters describing an audit of the financial statements of an LCE as set out in Part A and does not contemplate jurisdictional descriptions.”

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:

	<p><i>There are 2 views on this matter from the PAFA member bodies.</i></p>
	<p><u>View 1</u></p> <p><i>The majority of members are supportive of the standalone nature of the proposed standard. However, to fully achieve the objective of the standalone standard and to achieve a consistent performance of a quality audit, there are two matters that the IAASB should consider before finalising the proposed standard:</i></p> <ul style="list-style-type: none"> • <i>Since the ISA for LCE contains no Application Material and very little Essential Explanatory Material, it is recommended 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. One needs to remember that the proposed standard has been written by staff and a task force and approved by the members of the IAASB who have a working knowledge of the ISAs. Certain users of the proposed standard may not have a working knowledge of the ISAs and will depend on Implementation Guidance to supplement their understanding of the proposed standard for consistent implementation thereof. Examples of areas of where implementation guidance would be particularly necessary are:</i> <ul style="list-style-type: none"> ○ <i>Planning</i> ○ <i>Risk assessment</i> ○ <i>Audit evidence and documentation</i> ○ <i>Materiality</i> ○ <i>Conversation with those in charge with governance</i> ○ <i>Accounting Estimates.</i> ○ <i>Going Concern.</i> ○ <i>Subsequent Events.</i> <p><i>The Authority of the proposed standard should make it clearer that the auditor cannot cherry pick a requirement(s) from the ISAs if it is not part of the core requirements in the ISA for LCE, (i.e., there is no intended need to directly reference back to the requirements or application material in the ISAs in the application of the proposed standard and relevant ISA requirements cannot be used to “top-up” the ISA for LCE). Please refer to additional comments made in response to question 3</i></p>

	<p><u>View 2</u></p> <p><i>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 some 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.</i></p> <p><i>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.</i></p> <p><i>We therefore recommend that ISA for LCE not be published as a standalone standard but rather as a suit of standards with the ISA</i></p>

(b) The title of the proposed standard.

Response:

	<p><i>Again, there are views presented from on this matter, however, on the main the members of PAFA are supportive of the title for the proposed standard..</i></p>
	<p><u>View 1</u></p> <p><i>Less complex entities is generally not a term that is 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.</i></p>

	<p><u>View 2</u></p> <p><i>If the intention from IAASB is to create a set of LCE standards that will have its on distinct process on further development i.e. 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 important 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.</i></p>

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

Response:

	<p><i>We support that the proposed standard has been developed to include core requirements to allow an auditor to express a reasonable assurance audit opinion.</i></p>

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:

	<p><i>We agree with the proposed conforming amendments to the IAASB Preface</i></p>

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:

	<p>General Comments</p> <p><i>The proposed standard needs to be consistently implemented across jurisdictions, by firms and on engagements. As such, the Authority of the proposed standard needs to be clear, unambiguous, provide little room for professional judgment, and provide clear direction and sufficient guidance.</i></p> <p><i>The unintended consequence of using the proposed standard when it should not be used, resulting in the auditor not obtaining sufficient appropriate audit evidence to support a reasonable assurance opinion and potentially expressing an inappropriate opinion, would be severe. Therefore, the Authority of the proposed Standard needs to be sufficiently robust to avoid these eventualities.</i></p>
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Generally, we are supportive the Specific Prohibitions (paragraphs A5-A7) contained in the Authority of the proposed Standard. However, we have reservations about the Qualitative Characteristics (paragraphs A8-A9).

We are supportive of the Supplemental Guidance for the Authority of the Standard and believe that it is much needed. We believe that an auditor needs to read the Authority Supplemental Guide alongside the proposed standard in order to understand the Authority of the proposed standard in full. Our concern is that auditors may not understand the need to read the Authority Supplemental Guide and not obtain a full understanding authority.

Specific Comments

Authority – Specific Prohibitions

We suggest that the IAASB consider the following enhancements:

- Provide a clearer link between the term “entities that have public interest characteristics” (paragraph A5) and the entities referred to in paragraphs A6-A7. Although paragraph A5 is true, it does not flow through to paragraphs A6-A7.
- The description of how legislative or regulative authorities or relevant local bodies with standard-setting authority can modify each class of entities described in paragraph A7(c) should be clarified in paragraph A6. The description as it is currently drafted may be considered difficult to understand. It is suggested that paragraph A6 be “bulleted” and some wording from paragraph 19 of the guidance contained in the Authority Supplemental Guide be moved to the Authority of the proposed standard to provide clarity and to prevent inappropriate use.
- 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.

Suggested editorial:

“Legislative or regulatory authorities or relevant local bodies with standard-setting authority can modify each class described in paragraph A.7.(c) but a class cannot be removed. Modifications can be made by:

- (a) Aadding a class of entities to the list of prohibited entities;*
- (b) Permitting specific sub-sets within a class of entities which do not exhibit public interest characteristics to be able to use the [draft] standard; or*
- (c) Using quantitative thresholds to prohibit use of the [draft] standard.”*
- *The use of the proposed standard should not be prohibited when the audit is an audit of group financial statements. Refer to my responses to questions 22-25 for further comments.*
- *As set out in paragraph 57 of the Explanatory Memorandum, paragraphs A7(c)(i)-(iv) of the proposed standard broadly align with the proposals by the IESBA to describe a PIE in their project to define a PIE. In the proposals presented to the IESBA in June 2021, the IESBA PIE Task Force expressed a preliminary view that the categories:*
 - *(d): An entity whose function is to provide post-employment benefits; and*
 - *(e): An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public.*

The IESBA PIE TF reaffirmed its views and proposals presented in the IESBA June 2021 meeting, and in September 2021 presented revised drafting to the IESBA, which was supported by the IESBA.

Even though the IESBA may vote to approve the definition of PIE without the abovementioned categories, the IAASB is encouraged to uphold their view that the classes of entities listed in paragraphs A7(c)(i)-(iv) are the same classes of entities that the IAASB would consider exhibit public interest characteristics for the purpose of the proposed standard and therefore would continue to use these descriptions.

- **Editorial to paragraph A5 – Entities don’t use the ISA for LCE, the ISA for LCE is used by auditors for the audit of entities:**

“Entities that have public interest characteristics could embody a level of complexity in fact or appearance ~~and are~~. Therefore the [draft] ISA for LCE is specifically prohibited from being used for these entities using the [draft] ISA for LCE.”

Authority – Qualitative Characteristics

The Qualitative Characteristics provide a second step in determining when it would be inappropriate for an audit of financial statements of an entity to be undertaken using the proposed standard, once it has been determined that the audit engagement is not prohibited from use of the proposed standard as set out in paragraph A7.

The Qualitative Characteristics set out in paragraph A9 of the proposed standard of (i) business activities, (ii) organizational structure, (iii) ownership, (iv) oversight, (v) regulation, etc. are effective indicators against which to measure whether an entity is an LCE.

However, as drafted, these Qualitative Characteristic require the auditor to exercise professional judgment because of the use of words such as “complex”/“complexity” and “not...simple”. The use of professional judgment by auditors can lead to the inconsistent and inappropriate use of the proposed standard. There should be little room for the exercise of

professional judgment. It is our view that the required use of professional judgment is too high and that a higher level of prescription is more desirable.

Paragraph A9 of the proposed standard uses the words “complex”/“complexity” nine times and “not...simple” once. Different auditors have different definitions of complexity and simplicity. For example, the use of a Black Scholes method in calculating an accounting estimate may be complex to one auditor but simple to another, depending on, perhaps, how often the auditor has audited such an accounting estimate in the past. As such, the auditor who believes that such an accounting estimate is simple, would choose to use the proposed standard, but the auditor who believes that the accounting estimate is complex, would be precluded from using the proposed standard.

This simple example illustrates how the professional judgment of an auditor can lead to the inconsistent and inappropriate use of the proposed standard.

Although the table below paragraph 28 of the Authority Supplemental Guide is somewhat helpful in providing examples of characteristics that may or may not be associated with an LCE, words like “complex” and “straightforward” are still used and provide the same concerns as with paragraph A9.

As such, we believe that the IAASB should consider amending the Qualitative Characteristics section (paragraphs A8-A9) of the proposed standard by clarifying what “complex”, “simple”, etc. means or using different ways to describe how the Qualitative Characteristics will influence the auditor’s decision as to whether an entity is an LCE.

Authority Supplemental Guide

We are supportive of the Authority Supplemental Guide and believe that it is necessary to read the Supplemental Guide alongside the Authority in the proposed standard to obtain a complete understanding of the authority of the proposed standard.

We propose that the IAASB consider the following enhancements to the Authority Supplemental Guide:

- Remove extracts from the Authority of the proposed Standard to reduce its length.
- Make it clearer in paragraph 31 that the auditor would be prohibited from applying the requirements as illustrated in (a)-(c) in an audit of an LCE because they do not form part of the core requirements in the proposed Standard. Furthermore, include paragraph 27 of the explanatory memorandum to further illustrate this important concept.
- As with the Qualitative Characteristics section of the proposed standard, amend the Qualitative Characteristics section of the Authority Supplemental Guide (paragraphs 24-29) by clarifying what “complex”, “simple”, etc. means or using different ways to describe how the Qualitative Characteristics will influence the auditor’s decision as to whether an entity is an LCE.
- **Editorial to paragraph 19:**
“...For example, there may be entities within a local context that are scoped ~~in~~ out when they, in fact, do not exhibit public interest characteristics as contemplated in paragraph 15 above...”

Based on the comments above, we are concerned that in its current form, the Authority of the proposed standard cannot be implemented in a consistent manner.

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

Response:

	<i>Refer to our response to question 3(a).</i>

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

Response:

	<i>Refer to our response to question 3(a).</i>

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

Response:

	<i>As addressed in our response to question 3(a), including as stated that the required use of professional judgment is too high and that a higher level of prescription is more desirable, we do not believe that the Authority, as set out, will achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard.</i>

(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:

	<p><i>Overall, we believe that the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions is clear and appropriate.</i></p> <p><i>However, we encourage the IAASB to consider the following:</i></p> <ul style="list-style-type: none"> • <i>As addressed in our response to question 3(a):</i> <p><i>The description of how legislative or regulative authorities or relevant local bodies with standard-setting authority can modify each class of entities described in paragraph A7(c) should be clarified in paragraph A6. The description as it is currently drafted may be considered difficult to understand. It is suggested that paragraph A6 be "bulleted" and some wording from paragraph 19 of the guidance contained in the Authority Supplemental Guide be moved to the Authority of the proposed standard to provide clarity and to prevent inappropriate use.</i></p> • <i>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</i>
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	<p>or its not a modified ISA for LCE. Please provide guidance on how to approach auditing framework issue where some modifications have been done.</p>
	<p>Suggested editorial: “Legislative or regulatory authorities or relevant local bodies with standard-setting authority can modify each class described in paragraph A.7.(c) but a class cannot be removed. Modifications can be made by:</p> <ul style="list-style-type: none"> (a) Aadding a class of entities to the list of prohibited entities;¹ (b) Permitting specific sub-sets within a class <u>of entities which do not exhibit public interest characteristics</u> to be able to use the [draft] standard; or (c) Using quantitative thresholds to prohibit use of the [draft] standard.” <ul style="list-style-type: none"> • Editorial to paragraph A10 – The last sentence of paragraph A10 potentially adds little value or at least the reference to the ISAs is not necessary. “...professional accountancy organizations or others as appropriate) in individual jurisdictions. This applies to the International Standards on Auditing (ISAs) and the [draft] ISA for LCE.” OR “...professional accountancy organizations or others as appropriate) in individual jurisdictions. This applies to the International Standards on Auditing (ISAs) and the [draft] ISA for LCE.” <p>In addition, we recommend the following editorials to paragraphs A12 and A13 in the Firms and Auditors section:</p> <ul style="list-style-type: none"> • Editorial to paragraph A12 – “consider¹” is a stronger and more appropriate “work effort verb” than “take into account²”: “...In doing so, the firm <u>considers</u> takes into account the specific prohibitions for use of the [draft] standard...” • Editorial to paragraph A13 – “consider” is a stronger and more appropriate action verb than “take into account”: “...For this purpose, the engagement partner <u>considers</u> takes into account...”

¹ Consider – A more active reflection by the auditor about a specific matter or relevant matters in the circumstances. Also known as “reflect upon”

² In performing procedures, actively thinking about or being influenced by relevant matters but only taking action when the matter is applicable

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:

	<i>Refer to our response to question 3(a) for the majority view.</i>
	<p><i>Some members presented the following views which PAFA believes should be given due consideration:</i></p> <p><i>Specific Prohibitions</i></p> <ul style="list-style-type: none"> <i>a. 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.</i> <i>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.</i> <i>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.</i> <i>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.</i>

5. Regarding the Authority Supplemental Guide:

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

Response:

	<i>Refer to our response to question 3(a).</i>

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

Response:

	<i>Refer to our response to question 3(a).</i>

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:

	<i>Refer to our response to question 3(a).</i>

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:

	<i>We support the approach taken by the IAASB 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.</i> <i>However, it is recommended 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.</i>

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

Response:

	<i>We support the approach to the objectives of each Part of the proposed standard.</i>

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

Response:

	<p><i>We agree with the principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management.</i></p> <p><i>However, it is recommended 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.</i></p>

- (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:

	<p><i><u>(i)</u> We agree with the approach to the content of the EEM, including that it serves the purpose for which it is intended.</i></p> <p><i><u>(ii)</u> It is our belief that the EEM is sufficient. However, it is recommended 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.</i></p> <p><i><u>(iii)</u> We support the way that the EEM has been presented within the proposed standard</i></p>

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:

	<p><i>We are comfortable with the overall design and structure of the proposed standard as well as the overall drafting principles. Specifically, we support that the separate standard should be based on the ISAs and retain the robustness of an audit using the ISAs to support a quality audit.</i></p> <p><i>We would like to suggest that the IAASB consider the following as they finalise the proposed standard:</i></p> <ul style="list-style-type: none"><i>• In the drafting of the proposed standard, the IAASB used the draft Complexity, Understandability, Scalability and Proportionality (CUSP), Drafting Principles and Guidelines. The proposed standard should be updated to reflect any changes made in a more advanced draft or the final CUSP Drafting Principles and Guidelines.</i>
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	<ul style="list-style-type: none"> Paragraph 2.1.3 of the draft CUSP Drafting Principles and Guidelines presented to the IAASB at its April 2021 Meeting states that “Sentences express just one idea. Sentences longer than a line and a half may be too lengthy.” In certain instances, I believe that sentences contained in the requirements of the proposed standard are unnecessarily long and complex. Please refer to my comments to questions 9-10 for detailed responses in this regard. <p>This been said, it is noted that, in certain instances, sentences and paragraphs contained in the proposed standard are taken word-for-word from the ISAs, which themselves are considered unnecessarily long and complex. It is suggested that the IAASB consider making these sentences and paragraphs shorter and less complex in the proposed standard without losing the meaning of the requirement in the ISAs.</p>

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:

	<p>Overall comments:</p> <ul style="list-style-type: none"> Throughout the proposed standard, the proposed standard is referred to in different ways: <ul style="list-style-type: none"> <u>The [draft] ISA for LCE.</u> <u>This [draft] ISA for LCE.</u> <u>This [draft] standard.</u> <p>It is recommended that the proposed standard be consistently “named” throughout the standard.</p> <p>Please refer below to comments on Parts 1-8 of the proposed standard.</p> <p>Part 1:</p> <p>No comments.</p> <p>Part 2:</p> <p>Comments:</p> <ul style="list-style-type: none"> Editorial to EEM paragraph below Paragraph 2.2.2. – Delete sentence that is struck through. This sentence is repeated and better place in the EEM below Paragraph 2.3.1.: “Appropriateness is the measure of the quality of the audit evidence, that is its relevance and reliability in providing support for the conclusions on which the auditor’s opinion is based. The reliability of audit evidence is influenced by its source and by its nature, and dependent on the individual circumstances under which it is obtained.” Editorial to paragraph 2.3.4.: “The auditor shall determine what modifications or additions to <u>audit</u> procedures are necessary if:...”
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Part 3:

Comments:

- **Editorial to paragraph 3.2.4. – To simplify a long and complicated sentence:**
“In taking overall responsibility for managing and achieving quality through direction, supervision and review of the work, the engagement partner shall determine that:
(a) ~~T~~he nature, timing and extent of direction, supervision and review is responsive to the nature and circumstances of the engagement; and
(b) ~~T~~he resources assigned, are in compliance with the firm’s related policies or procedures, this [draft] standard, relevant ethical requirements and regulatory requirements.”
- **Editorial to paragraph 3.2.10.:**
“...(a) Understand the information from the firm’s monitoring and remediation process that has been communicated, and if applicable, information ~~for~~ from the monitoring and remediation process of other network firms that has been communicated,...”

Part 4:

No comments.

Part 5:

Comments:

- Paragraph 5.2.11. is an example of a long and complicated paragraph. It is a combination of paragraphs 9-11 of ISA 620³. In themselves, paragraph 10 of ISA 620 contains two sub-bullets and paragraph 11 contains three sub-bullets. In the spirit of the CUSP Drafting Principles and Guidelines, it is suggested that paragraph 5.2.11 be split into three requirements that mirror paragraphs 9-11 of ISA 620.

Part 6:

- **Editorial to EEM paragraph below Paragraph 6.2.1 – “Full-Stop” is missing at the end of the first sentence:**
“...When such systems and processes lack formality, compliance with the procedures in this Part is still required. For example the auditor may still be able to perform the required procedures through observation and inquiry...”
- **Editorial to paragraph 6.2.2. – Remove “Full-Stop” at the end of sub-bullet (b):**
“(a) Inquiries of management, and other appropriate individuals within the entity;
(b) Analytical procedures.; and
(c) Observation and inspection.”
- **Editorial to paragraph 6.3.2. and 6.3.3. – In terms of Paragraph 5.1 2 of the CUSP Drafting Principles and Guidelines, the term “obtain an understanding” should be used, rather than using the word, “understand”:**
 - 6.3.2.: “The auditor shall obtain an understanding how those charged with governance exercise oversight...”
 - 6.3.3.: “The auditor shall obtain an understanding:...”
 - It is suggested that this principle be consistently applied throughout the proposed standard.

- The EEM paragraph above paragraph 6.3.6. of the proposed standard lists the five components of internal control, that includes “control activities”, per ISA 315 (Revised)⁴. A decision was made when drafting the proposed standard not to introduce the term “control activities”, but instead to rather use the word “controls”. Paragraph 6.3.14. of the proposed standard list the “controls” (which are the controls within the “control activities” component paragraph in ISA 315 (Revised)), and only uses the word “controls”. As such, the use of the term “control activities” in the EEM paragraph may be considered confusing. It is therefore suggested that the IAASB either decide to introduce the term “control activities” into the proposed standard” or amend the list off the five components in the EEM paragraph above paragraph 6.3.6 to align it to the terms used in the proposed standard.
- **Editorial to paragraph 6.3.16. – Add a “Full-Stop” after the reference to paragraph 6.3.15.:**
 “For the IT applications and other aspects of the IT environment identified in paragraph 6.3.15., the auditor shall identify the related risks...”
- **Editorial to EEM paragraph below Paragraph 6.5.4.:**
 “...unless the risk is of a type specified to be treated as a significant risk as set out in paragraphs 6.5.7.4.–6.5.5...”
- **Editorial to paragraph 6.5.7.(a)(ii) – There appears to be a red line struck-through the word “fraud”, which should be deleted/the word “fraud” should be reinstated:**
 “...Risk of fraud in revenue recognition. Based on a presumption that there are risks of fraud ~~fraud~~ in revenue recognition...”
- I support the inclusion of the “stand-back” requirement, paragraph 6.5.11.
 This been said, it is strongly suggested that the IAASB issue support material on how an auditor would transition out of the proposed standard to the ISAs should the application of the proposed standard no longer be appropriate.

Part 7:

Comments:

- **Editorial to paragraph 7.3.12.(a) – This sentence is long and complicated. It is suggested that the sentence be broken down and sub-bullets be introduced:**
 Consider:
 - (i) ~~T~~the effectiveness of the components of the internal control system;
 - (ii) ~~T~~the risks from the characteristics of the control (e.g., manual or automated);
 - (iii) ~~T~~the effectiveness of general IT controls;
 - (iv) ~~T~~the effectiveness of the control and its application by the entity;
 - (v) ~~W~~hether the lack of a change in a particular control poses a risk due to changing circumstances; and
 - (vi) ~~T~~the risk of material misstatement and the extent of reliance on the control planned.
- **Editorial to paragraph 7.3.12.(a)-(b):**

	<p><i>Formatting: It appears as if the spacing of the paragraphs are different to the rest of the document and appears to be “aligned left” rather than “justified”. It is suggested that it be corrected.</i></p> <ul style="list-style-type: none"> • Editorial to paragraph 7.4.18.(a)-(b): • <i>Formatting: It appears as if the spacing of the paragraphs are different to the rest of the document and appears to be “aligned left” rather than “justified”. It is suggested that it be corrected.</i> • Editorial to EEM paragraph below paragraph 7.4.20. – There appears to be a red line struck-through the word “to”, which should be deleted/the word “to” should be re-instated: <i>“In some cases, attendance at physical inventory counting may be impracticable. This may be due <u>to</u> to factors such as the nature and location of the inventory...”</i> <p>Part 8:</p> <ul style="list-style-type: none"> • Editorial to paragraph 8.1.1.: <i>Formatting: It appears as if the spacing of the paragraphs are different to the rest of the document and appears to be “aligned left” rather than “justified”. It is suggested that it be corrected.</i> • <i>The EEM paragraph to paragraph 8.5.1. states that “...the auditor may also consider whether such information changes the auditor’s determination about the appropriateness of use of the[draft] ISA for LCE for the audit, which may necessitate a modification to the terms of engagement.” This EEM is in relation to the requirement in paragraph 8.5.1. requiring the auditor to “...evaluate whether the assessments of the risks of material misstatement at the financial statement and assertion levels remain appropriate” and is a form of a “stand-back” that the auditor should take at the conclusion stage of the audit. It is suggested that this “stand-back” contained in the EEM paragraph be elevated to a “stand-back” requirement below paragraph 8.5.1.</i>

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:

	<p>(a) The presentation, content and completeness of Part 9:</p> <ul style="list-style-type: none"> • <i>We agree with the presentation, content and completeness of Part 9.</i> • Editorial to the International Auditors Report – Basis for Opinion on page 141 of 170:
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	<p><i>The title of the ISA for LCE should read" International Standard <u>on</u> Auditing <u>for</u> Audits of Financial Statements of Less Complex Entities and not International Standard <u>for</u> Auditing <u>on</u> Audits of Financial Statements of Less Complex Entities.</i></p> <p>(b) The approach to include a specified format and content of an unmodified auditor's report as a <i>requirement</i>?</p> <ul style="list-style-type: none"> • <i>Yes, we agree with this approach.</i> <p>(c) The approach to providing example auditor's reports in the Reporting Supplemental Guide.</p> <ul style="list-style-type: none"> • <i>Yes, we agree with the inclusion of example auditor's reports in the Reporting Supplemental Guide.</i>

11. With regard to the Reporting Supplemental Guide:

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

Response:

	<i>We support the development of the Reporting Supplemental Guide which we believe to be necessary and helpful.</i>

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

Response:

	<i>None</i>

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:

	<i>We have no additional comments</i>

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:

	<i>We have no additional comments</i>

(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:

	<i>Yes, we agree with the proposed approach to future updates and maintenance.</i>

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

Response:

	<i>Yes, we do not have any objections to early adoption and in fact support it.</i>

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

Response:

	<i>We support the IAASB's approach to focus on developing an auditing standard for audits of complete sets of general-purpose financial statements of LCEs first and considering, if needs be, adding parts of the ISA 800 series as necessary in order to avoid over complicating the proposed LCEs standard at this early stage.</i>

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:

	<i>Yes, the standard can, and will be used in a majority of the African jurisdictions, including the countries of the Organization for the Harmonization of Business Law in Africa (OHADA)</i>
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	<i>region after adoption by that regulator.</i>

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

Response:

	<i>Yes, the standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.</i>

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

Response:

	<i>Refer to the concerns reported above on judgment when deciding if the LCE should be used (scope and authority)</i>

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:

	<i>None</i>

Section 4G - Approach to Consultation and Finalization

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

Response:

	<i>As already stated, it is ours strong view that Implementation Guidance be 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.</i>

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:

Technical content is difficult to translate as such it is important to ensure that key terminologies are defined and avoid long sentences like:

P.6 *“...Law or regulation may establish the responsibilities of management, and those charged with governance, in relation to financial reporting. This [draft] standard does not impose responsibilities on management or those charged with governance and does not override law or regulation that govern their responsibilities. However, an audit in accordance with this [draft] standard is conducted on the premise that management, and where appropriate, those charged with governance have acknowledged certain responsibilities that are fundamental to the conduct of the audit.”*

P20: *“...The IAASB will consider the impact on the [draft] ISA for LCE as part of a project to revise or develop a new ISA, and a determination made as to the urgency for the need for a change to this [draft] standard. In developing the exposure draft of the changes for the [draft] ISA for LCE, the IAASB will consider any specific issues that have been brought to the attention of the IAASB regarding application of the ISA for LCE. The IAASB expects that there will be a period of at least eighteen months between when amendments to the ISA for LCE are issued and the effective date of those amendments.”*

A10. *“Decisions about the required or permitted use of the IAASB’s International Standards rest with legislative or regulatory authorities or relevant local bodies with standard-setting authority (such as regulators or oversight bodies, national standard setters, professional accountancy organizations or others as appropriate) in individual jurisdictions.”*

1.5. *Fraud: “.....*

When obtaining reasonable assurance, the auditor is responsible for maintaining professional skepticism throughout the audit, considering the potential for management override of controls and recognizing the fact that audit procedures that are effective for detecting error may not be effective in detecting fraud.”

Considerations Specific to Public Sector Entities

“The public sector auditor’s responsibilities relating to fraud may be a result of law, regulation or other authority applicable to public sector entities or separately covered by the auditor’s mandate. Consequently, the public sector auditor’s responsibilities may not be limited to consideration of risks of material misstatement of the financial statements, but may also include a broader responsibility to consider risks of fraud.”

1.7. *Related parties*

“...

However, the nature of related party relationships and transactions may, in some circumstances, give rise to higher risks of material misstatement of the financial statements than transactions with unrelated parties. Related parties, by virtue of their ability to exert control or significant influence, may be in a position to exert dominant influence over the entity or its management. Consideration of such behavior is relevant when identifying and assessing the risks of material misstatement due to fraud.”

	<i>4.7.1. “The auditor shall communicate with those charged with governance the auditor’s responsibilities for forming and expressing an opinion on the financial statements prepared by management, and that the auditor’s responsibilities do not relieve management or those charged with governance from their responsibilities for oversight of the preparation of the financial statements.”</i>

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:

	<i>We believe that this would not be sufficient due to the time required to launch the adoption process in some of the regions such as the OHADA jurisdiction. 24 months would be preferred.</i>

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:

	<i>While we appreciate the logic provided by the IAASB in their views to exclude group audits from the scope of the proposed standard, we are of the view that not all groups are not complex and as such cannot be a “one size fits all” approach to group audits. We therefore implore upon the IAASB to consider a more innovative approach to addressing group audits.</i>

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:

	<i>Yes, the exclusion of groups does not remove the relevance of the standard for non group audits that are less complex.</i>

- (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:

	N/A

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

Response:

	N/A

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:

	<i>PAFA members have shown an overwhelming preference is for the proposed standard to set out qualitative characteristics for complexities specific to groups.</i>

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:

	None

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:

	<i>For ease of reference and use of the standard, our preference is to have all the requirements in a separate part as the considerations related to group would be akin to “special considerations” and not necessarily relevant for all audits.</i>