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31 January 2022

International Auditing and Assurance Standards Board

Dear Sir/Madam

CONSULTATION SUBMISSION: EXPOSURE DRAFT, PROPOSED INTERNATIONAL STANDARD ON AUDITING OF FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES

Price Bailey welcomes the opportunity to comment on the Exposure draft, Proposed International standard on auditing of financial statement of less complex entities (LCE). We believe this proposed standard is important and will be very relevant to a number of audits we undertake.

About Price Bailey

Price Bailey is a top 30 UK accountancy practice specialising in providing audit, accountancy, tax and business advice to enable the growth of regional, national and international businesses. We audit a number of entities within the SME sector and also listed companies.

We have 11 offices, 8 in the UK and 3 overseas. We employ over 350 professionals and have a group turnover of £30million.

The consultation is important to Price Bailey as we audit a large number of less complex entities.

Key comments:

We welcome the exposure draft and appreciate the work undertaken by the IAASB. We believe this project is very important and needed.

Due to large corporate failings, the International Standards on Auditing (ISA's) have continued to become more complex and significantly increase the work required. This is fully understandable.

Our Promise

At Price Bailey - it's all about you.

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Ideally the ISA's would be able to be applied proportionally to all sized businesses but that is not the case as all requirements have to be applied from large Public Interest Entities (PIE's) audits to small owner managed companies.

In our opinion LCE's are an important part of the economy and the provision of audit services to them, provide the LCE'Ss and the wider economy with significant value.

LCE's are not the same as large complex listed companies, as the nature and risk for these entities is different. They are different. They are managed differently, controlled differently and it is wrong to think LCE's are the same as large PIE's, but just smaller.

This standard is an opportunity to address the above fact. It will be helpful to have a standard which is tailored to LCE's and which is recognised globally.

We appreciate the work that has been undertaken and a number of good suggestions have been made. However we do not think it has met all the needs of the relevant stakeholders.

At the moment there is insufficient difference between the requirements in existing ISA's and the draft LCE standard. Although the draft LCE standard is significantly shorter this is primarily due to the removal of guidance. In our view, the lack of reduction of requirements is as a result of trying to decide which requirements can be justifiably removed rather than deciding what is actually needed for a quality LCE audit.

One significant area that needs to be addressed is the current exclusion of groups being able to apply this standard. We appreciate the fact that the IAASB has consulted on this aspect, however we believe that groups should be able to adopt this standard when all entities within the group are individually classified as less complex.

To finalise, we are pleased the IAASB have carried out this work. It is an important area and we support the IAASB moving forward with the LCE standard. Hopefully our feedback will be taken on board, as we are keen to ensure there is an auditing standard suitable for LCE's.

We have provided detailed responses to each of the individual questions in the attached document.

Thank you for your hard work.

Yours faithfully



Price Bailey LLP

Specific Questions

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

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 LCE standard needs to be clearer as to what standalone means in this context. The wording implies that auditors cannot use their knowledge of the main ISA's or refer to them if they want additional guidance on a specific point.

Standalone should mean standalone.

Standalone should mean that complying with the requirements within this standard is sufficient to obtain reasonable assurance on an LCE audit and there is no requirement to make reference to the other standards. Auditors can use their existing knowledge and are able to make reference to guidance within the ISA's if they need or want to. They cannot be expected to carry out the audit with restrictions on the resources available. However this doesn't mean that there should be any expectation of the auditor to consider the existing ISA's.

- (b) The title of the proposed standard.

Response: Seems appropriate.

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

Response: It is important that when publishing the LCE standard it is very clear that it achieves reasonable assurance to the same level as the ISA's. The standard is not about reducing quality it is about having an appropriate standard for the types of entities it is to be applied to.

The main concerns in adopting the LCE standard is that the requirements are not sufficiently different to the ISA's. We audit entities across a broad spectrum, a number of which are less complex but also those which are more complex. Based on the current draft we have little incentive to adopt this standard due to the additional cost to implement but with little benefit.

Additional costs will include having an extra audit methodology system and extra training. If there was sufficient difference in the work to be undertaken there would be more benefit in considering implementing this standard. This can be rectified by taking a closer look at the requirements and ensuring that requirements which are not appropriate are removed. We have provided specific examples later in our response.

We are also concerned that the market may misunderstand the standard and assume less work will be required and therefore expect the audit fees to be reduced. Therefore it is important the standard achieves reasonable assurance to the same level as ISA's. The

same level of assurance can be achieved by keeping quality audit work but the audit work is carried out differently due to the fact LCE's are different.

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: These amendments seem reasonable based on the current drafting of this standard.

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: The authority is implementable however needs to be improved. The key areas which need to be addressed are:

- The exclusion for all groups is inappropriate in particular in the UK when there are a number of group entities. This restriction will impact us from using the LCE standard.
- The authority is not sufficiently prescriptive in regard to the reference to complex accounting estimates. Without clarity in this area we are concerned that there will be different interpretations, including between firms and regulators.
- Not all pension schemes are complex and therefore should not all be excluded.

It is important that the authority is clear and unambiguous. Specific examples in the supplementary material in regard to types of accounting estimates may assist with clarifying the authority. If it is too time consuming at the planning stage to ensure you have correctly categorised is as an LCE or not, it will deter people from adopting the standard.

It is very important that it can be categorised easily and with confidence at the planning stage as transitioning during the audit would be complicated and therefore costly.

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

Response: We are concerned that there will be a misunderstanding in the market place that the LCE standard significantly reduces the work required and that it is considered a lower level of assurance, as a result clients may expect their fees to be reduced. It is important that the messaging around the LCE standard is clear that it does achieve reasonable assurance.

Over time this could lead to an additional tier in the profession and make it more difficult for auditors to move from firms that may only audit LCE's and vice versa. In addition

there is insufficient information as to whether the different software providers will be able to provide the 2 different systems and have a method of transitioning if required.

The IAASB need to further engage with local regulators and standard setters to reinforce this standard and its importance for the sector. It is important that this is a global solution to the audits of LCE's as there is greater risk if individual jurisdictions move forward with their own standards.

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

Response: There are a number of instances within the qualitative characteristics where the wording is contradictory or confusing, we have included some examples below:

Paragraph A8 starts by explicitly stating that LCE would be inappropriate if an entity exhibits the bulleted characteristics, but ends by stating that the bullets are merely indicators of, or proxies for, issues the ISA for LCE was not designed to address.

It's unclear whether the two bullets are to be taken together or individually (suggest you insert 'and' or 'or' after the first bullet.

Paragraph A9 also starts by explicitly stating that ISA for LCE is inappropriate if an entity exhibits one or more of the characteristics listed, but ends by saying that each of these characteristics may on its own not be sufficient to determine whether ISA for LCE is appropriate or not, and also that the presence of one characteristic exhibited by an entity does not necessarily exclude the use of ISA for LCE.

In A9, at the 7th bullet point it refers to "complex methods" with accounting estimates. There could be a number of different interpretations of the types of accounting estimates which would meet that definition, as different firms / audit engagement partners may classify "complex methods" differently. Something that may be seen as complex to one audit partner may seem less complex to someone else who specialises in a particular area.

There can also be accounting estimates which have a higher degree of uncertainty however we do not believe that in its self should mean that this draft standard couldn't be applied. Although there is the supplementary guidance that has been issued you need more specific examples, for example, investment property valuation, or share option schemes, or defined benefit pension schemes. Some very simple companies may have these and different auditors which have different views as to whether these are complex or not.

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

Response: No. As noted above we do not think the authority is clear and therefore stakeholders will not be able to understand the scoping of the standard.

(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: Yes. However the IAASB should engage with jurisdictions regulators and standard setters and encourage use of the standard. There is reluctance from the UK regulator to engage on the LCE standard and therefore unclear as to whether it will be an option within the UK or what thresholds would be introduced.

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: Groups should not be excluded. There are a number of less complex groups within the UK. We have a number of clients who are a part of a group and where we would consider the group as less complex, for example charities with trading subsidiaries, and simple group structures where you have a holding company owning the property and then a number of trading subsidiaries.

In addition it appears all pension scheme audits would also be excluded yet we have a number of small ones which are not complex.

As noted above the qualitative characteristics are not clear enough and therefore could lead to misunderstanding, inconsistencies and challenge from regulators.

Key areas as noted above is around the accounting estimates.

5. Regarding the Authority Supplemental Guide:

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

Response: The guide is helpful but could be improved with more specific examples in regard to actual accounting estimates, e.g. share option valuations, valuation of defined benefit pension scheme, property valuation, provisions etc. Once it is clear it will be easier for firms to consider whether the LCE standard will be appropriate and assist with the documentation of that consideration.

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

Response: Specific examples for accounting estimates.

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: No further matters.

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: The approach to this standard should have been thinking about the types of entities this will apply to and what audit requirements are needed to achieve reasonable assurance for those types of audits.

Instead the approach has been to review the ISA's and see if removing any of the requirements can be justified and then some restructure and removing a lot of the explanation within the standard. This has meant requirements which are not relevant to a quality audit for an LCE are still included. It is more difficult to try and justify removing a requirement than considering which ones to add. In effect it should be a "bottom up" approach. This could have then built on additional modules to deal with specific areas – such as groups.

We do not believe that the principle you wanted to achieve in having a standard proportionate to LCE's has been achieved in the current draft. We do believe it can be achieved and would not require significant work to improve. We have provided some specific examples later in our response. These are not exhaustive but give an indication as to where some improvement can be made to achieve a more proportionate standard.

Although there was a focus on reducing the length of the standard and this has been achieved, this has mainly been as a result of reducing some of the explanation and guidance. Some of which was useful. There is still some duplication within the standard and although there is improvement in the language it could still be more succinct in places, and some additional guidance may be required in some areas.

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

Response: Generally objectives are clear.

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

Response: Overall the principles used in these areas are sufficient. Over time it would be beneficial that the ethical standards relevant to an LCE are incorporated within the acceptance part of the standard.

- (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: No specific comments.

Section 4D – Overall Design and Structure of ED-ISA for LCE

8. Please provide your views on the overall design and structure of ED-ISA for LCE, including where relevant, on the application of the drafting principles (paragraph 98-101).

Response: The structure and flow of the standard is an improvement on the existing ISA's however some areas could still be improved and made clearer and simpler. A lot of the guidance has been removed from the standard which is predominantly why the length has reduced significantly. Some of the guidance is needed and will need to be developed.

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.

Part 2 - We like the fact that there is reference to automated tools and techniques. Overall there has been some improvement to the language used but this could still be improved and made more succinct in areas.

Part 3 - There are a number of paragraphs in section 3.2 which are repetitive and could be consolidated succinctly.

Part 5 - The section in relation to the use of an auditor's expert could be reduced and simplified. However reference to the use of type 1 or type 2 reports on service companies used by management should be included.

Part 6 - We have looked at this section in more detail as an illustration where there are a number of obvious requirements which have been retained from the ISA's which are not relevant to an LCE audit.

The specific examples are noted below, but this is not an exhaustive list.

6.3.1e) - Reference to entity's transactions implies a high level of detail yet this requirement is about understanding the high level of risk. Suggest to amend to "changes in the nature" of the entities transactions.

6.3.1f) - This would normally be carried out in the fieldwork stage.

6.3.2 - Should be simplified to "enquire of management about the risks and controls for the management of fraud or error"

6.3.7 - Should be deleted. LCE clients are not going to have a risk assessment process for this area.

6.3.8 - Should be deleted.

6.3.9 - Need's to be simplified. Auditors need to understand the process for the preparation of the financial statements. They do not require a detailed understanding of the information system or the IT environment.

6.3.10 - Should be deleted.

6.3.11 -Should be amended to "the auditors shall evaluate whether the clients system appropriately supports the preparation of the entity's financial statements in accordance with applicable financial framework"

6.3.13 - Should be deleted as covered better in 6.3.18.

6.3.14-16 - Needs to be simplified and remove repetition and also made clear that for where the auditors are not intending to test controls, they do not need to deal with the design and implementation of the controls in any detail, they just have to consider the controls.

6.3.17 - Reference to the use of reports on service providers may be useful (type 1 & 2 reports) etc.

6.4.1 and 6.4.3 - Can be simplified and merged.

6.5.1 and 6.5.2 - Is mainly repetitive and covered elsewhere and can be simplified, no need for a0 or b) no need to refer to "other inherent risk factors".

6.5.3 - Covered elsewhere so can be deleted.

6.5.9 - Can be simplified.

Part 7 - Sampling section will be very relevant some additional guidance would be useful.

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: Overall this section seems to be more complicated than what is needed.

11. With regard to the Reporting Supplemental Guide:
- (a) Is the support material helpful, and if not, why not?

Response: Yes the guide is helpful but could still be clarified.

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

Response: None identified.

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: Overall in Part 8 there is little difference in practical terms to the audit work to be undertaken therefore will leave little benefit for the adoption of this standard.

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: This will depend largely on how the software will be able to cope with transitioning. It should be possible. However based on some software which we are aware of, this is likely to be more difficult to implement. Needs to be a wider discussion with a number of alternative well established software providers to look at the practical implications of this.

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

Response: Clarification on what is actually required on transition to the ISA's, including an example of a particular scenario.

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

Response: Yes every three years would give sufficient time to properly consider whether the amendments need to be made to the LCE standard and ensure only appropriate changes are adopted. Need to maintain a mapping which will clearly show the differences between the LCE and main ISA's.

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

Response: Yes early adoption 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 think this should be considered over time and added. We do report under ISA-800 for a number of LCE's and therefore for this to be an option would be beneficial.

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: The regulator in the UK has been very negative in regard to this standard and therefore there is concern as to whether we will be able to implement the proposed standard. We believe there is a need for this standard.

For this standard to be adopted within the UK it needs to be clearer that this standard is still robust and provides a good quality audit but is tailored to LCE's, it is not about lower quality. Within the UK there is a lot of focus on the quality of audits and there is a risk this could be seen to be going against this. However if appropriate changes are made we believe a LCE auditing standard will increase the quality of LCE audits.

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

Response: At the moment it doesn't fully meet the needs of the stakeholders. It has not been tailored sufficiently for LCE's. There are a number of requirements which have been included from the ISA's which are not relevant to the audit of an LCE.

At the moment it is difficult to justify the additional costs of implementation. However this may change over time. Careful consideration needs to be applied to possible future changes to the standard. When amendments are made to the full ISA's these should not automatically be added to the LCE standard. Additional requirements should only be included within the LCE standard if there is a clear need to address an issue with LCE audits. This should mean over time there will be a clearer differential between the LCE standard and the main ISA's which will also mean there will be more benefit to adopt it.

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

Response: The key challenges are:

- The lack of clarity in the authority. We have suggested some ways this can be addressed earlier.
- Excluding groups – these need to be allowed to apply the standard. See details in later questions about how they can be included.
- Concern with methodology providers and software providers being able to provide both methodologies and enable easy transition. Further outreach to more software and methodology providers is needed.

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: Communication with stakeholders, making it clear this is not about reducing work or quality but about having a standard which is tailored towards less complex entities.

Section 4G - Approach to Consultation and Finalization

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

Response: As noted earlier clearer guidance on the authority of the standard. Further guidance may be required on certain areas within the standard once.

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: We didn't note any specific examples, there has been an improvement in the language used within this standard however there are still some places where it could be clearer which will also make it easier on translation.

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: This approach seems appropriate.

Section 5 – Group Audits

22. The IAASB is looking for views on whether group audits should be excluded from (or included in) the scope of ED-ISA for LCE. Please provide reasons for your answer.

Response: Group audits should not be excluded. We audit a number of groups where the parent and all of the subsidiaries individually would meet the definition of being less complex and where the consolidation is not complex therefore it doesn't make sense to exclude all groups from using this standard.

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: If groups are excluded it will impact our decision as to whether to adopt this standard, as inadvertently it may also impact on whether we would adopt it on subsidiaries within the group as we would have to consider whether that created extra work for the group audit. In order to use this standard firms will need to be comfortable that there will be a sufficient number of clients that they can apply it to and that it is sufficiently different from the main ISA's to justify the extra indirect costs of an extra audit methodology and training.

- (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: We are unable to capture a reliable figure.

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

Response: Where the different entities within the group all meet the characteristics of less complex entities including:

Parent company with trading subsidiaries – just different trades, or working in different areas.

Charity with trading subsidiary.

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: As noted above should be adopted where all of the different entities within the group would meet the existing definition of being less complex, and there are no particular complexities for the consolidation.

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: The only other factor may be the use of size criteria by the relevant local jurisdiction.

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: Option (a) having them within a separate part but clear as to what is required at the different stages of the engagement and ensuring only include the requirements which will be relevant to the less complex groups.