

Questions for Respondents on LCEs

1. We are looking for views about how LCEs could be described (see page 4). In your view, is the description appropriate for the types of entities that would be the focus of our work in relation to audits of LCEs, and are there any other characteristics that should be included?

I would like to comment on qualitative characteristics as below:

Paragraph (a) in regards to the ownership and management of any entity, it concentrates on a small number of individuals and gives example of one natural individual or another entity, saying so, in the case of ownership of a single natural person, such business will be categorized as a Sole Proprietorship, and if the business is owned by another entity then it would be consolidated with the parent entity, and these factors should be among our considerations.

In paragraph (b), to define LCE, six qualitative characteristics have been given, regardless of due attention to the specific business environment. In my opinion, we need to consider the business environment at first step and then define LCE. I will refer to this matter later on.

2. Section II describes challenges related to audits of LCEs including those challenges that are within the scope of our work in relation to audits of LCEs. In relation to the challenges that we are looking to address:

- a. What are the particular aspects of the ISAs that are difficult to apply? It would be most helpful if your answer includes references to the specific ISAs and the particular requirements in these ISAs that are most problematic in an audit of an LCE.

Problematic ISAs in LCEs audit arise from applying, ISA 315& ISA 330, Identifying and assessing risk of material misstatement, ISA 540, auditing accounting estimates including fair values (specially fair values due to relying on assessor work, in most cases), and ISA 550, related party transactions, which in fact they do not occur in a normal course of business in my jurisdiction!

- b. In relation to 2a above, what, in your view, is the underlying cause(s) of these challenges and how have you managed or addressed these challenges? Are there any other broad challenges that have not been identified that should be considered as we progress our work on audits of LCEs?

Business environment, economic rants, lack of transparency, hyperinflation and currency causing corruption, money laundering, corrupted business environment, lack of business moral and ethics, superior social and political groups have the power to influence on audits and subordinate auditor opinion.

3. With regard to the factors driving challenges that are not within our control, or have been scoped out of our exploratory information gathering activities (as set out in Section II), if the IAASB were to focus on encouraging others to act, where should this focus be, and why?

Some technical issues could be done by national standard setting bodies, with promulgating special procedures for LCEs audit, but some problems are out of national standards setting bodies, in some jurisdictions. In some cases the auditor has limitations in detecting fraud, especially in jurisdictions that the auditor is afraid of losing the audit contract.

4. To be able to develop an appropriate way forward, it is important that we understand our stakeholders views about each of the possible actions in relation to the potential possible action that may be undertaken as set out in Section III:

In my jurisdiction the majority of entities by definition are less complex regardless of being PJS or incorporated and, stakeholders mostly include tax authorities, creditors, social security organizations, and equity owners. Considering these stakeholders I answer the following question.

- a. For each of the possible actions (either individually or in combination):

i. Would the possible action appropriately address the challenges that have been identified?

Yes, but the problems arise when the fabrication of information misleads the auditor, for example third party confirmations, which in most cases reduces reliability of audit documentation and in fact it should be considered as a limitation in auditing, or settling related party accounts. In other circumstances, using local certified assessors' determined fair values are not reliable in many cases.

ii. What could the implications or consequences be if the possible action(s) is undertaken? This may include if, in your view, it would not be appropriate to pursue a particular possible action, and why.

Developing a comprehensive audit guide with the cooperation of national audit standard setting body in each jurisdiction would be more efficient and useful, having knowledge of the local business entities and possible ways of manipulating information and documents, providing to auditor. In my view due to lack of transparency in business environment in my jurisdiction, it should be required to apply all related and applicable ISAs with sufficient amount of skepticism to reduce audit risks. Eliminating of any applicable standards in audit procedures will result in misleading the audit report.

b. Are there any other possible actions that have not been identified that should be considered as we progress our work on audits of LCEs?

In fact the consideration in developing a comprehensive audit guide, as has been identified by IAASB, would be sufficient if it pays due attention to the business environment and audit risks arising from the lack of transparency in the economic macro scale.

c. In your view, what possible actions should be pursued by us as a priority, and why? This may include one or more of the possible actions, or aspects of those actions, set out in Section III, or noted in response to 4b above.

I have addressed this matter in my previous answers above.

5. Are there any other matters that should be considered by us as we deliberate on the way forward in relation to audit of LCEs?

No, IAASB has considered all respective issues in auditing of LCEs. As I have already mentioned in my jurisdiction, the majority of entities are less complex, but the main issues arise from lack of transparency, corruption, recognition of audit by the business community, not only in fulfilling legal mandates, but giving value to audit to insure all stakeholders in business entities.

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