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DE CONTADORES PÚBLICOS
COLOMBIA

Member of the International
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January 31, 2022

Mr.
International Federation of Accountants -IFAC
529 Fifth Avenue
New York, NY 10017 USA

INCP (Colombia's National Institute of Public Accountants)

Ref.: Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities

Dear Sirs:

The INCP would like to express its gratitude for this opportunity to make and submit some comments on the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities. Included below are our responses to the questions asked in the exposure draft; thank you for your consideration thereof:

- 1. Fundamental Concepts, General Principles and Overarching Requirements.**
- 2. Audit Evidence and Documentation**

The draft standard provides basic and simple criteria for auditors to perform their work. They are similar to the overall objectives of International Standards on Auditing. However, understanding the International Standards on Auditing is essential for understanding and complying with the stand-alone standard around LCE. The background section indicates the need for supplementary guidance to implement the standard.

The documentation does not address specifically the closing of working papers and associated timeframes.

3. Engagement Quality Management



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The possibility offered by this standard of not applying ISQM 2 in LCE audits is considered appropriate. The partner's responsibilities for managing quality in the ED-ISA for LCE are considered appropriate.

We suggest considering in the regulations, in the case of audits performed by a single person, to request that the practitioner tailor the fulfillment of these responsibilities to the situation of the engagement. The specific documentation requirements in the ED-ISA for LCE are considered appropriate.

There should be guidance for the application of ISQM 1, not only that it is not applied or that it is done on a voluntary basis.

- 4. Acceptance or Continuance of an Audit Engagement and Initial Audit Engagements**
- 5. Planning**

The ISA for LCE does not address thoroughly the event in which the audit is performed by a single person, something that is very common in our local environment. This should be analyzed to regulate single-person audits and compliance with ISAs requirements.

6. Responding to Assessed Risks of Material Misstatement

The greatest risk involved is that quality may be neglected. For instance, how would tests of controls be performed, given that SMEs are less documented, have simpler structures, and have risks associated with the segregation of duties.

It would be advisable for this type of companies to have substantive procedures, and not so much controls. The draft should have a greater depth of these issues.

In the case of sampling, this draft standard fails to discuss sampling techniques; it is generic and does not contemplate, for example, extrapolation of samples. This can lead to a decreased level of quality of audits because they do not have sufficient depth.

It does not specify about opening balances (ISA 510), nor written representations to management (ISA 580). It does not explain how to respond to the risk of fraud and related parties, where guidance is scarce. There is no audit for economic groups.



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There would be no decrease in documentation, perhaps in tests of controls or group audits; otherwise, it is still the same documentation and responsibilities.

7. Forming an Opinion and Reporting

The objectives are consistent with ISA 700, which is considered appropriate. In general, it is noted that the requirements of Part 9 are similar to those of ISA 700, which we believe remains relevant and applicable to auditors of LCEs.

8. Forming an Opinion on the Financial Statements

Essentially, the requirements of ISA 700 are maintained. A simpler language is observed, as well as a reordering that eases the understanding of the standard. Some improvements include:

- It clarifies that disclosures associated with accounting estimates must be followed.
- It explicitly refers to conclude on the accounting and presentation of transactions with related parties.
- We suggest including a reminder, similar to ISA 700, regarding fair presentation as follows: "financial reporting frameworks, such as IFRS, typically caution that it may not be sufficient to comply with the reporting requirements of the framework, but that there may be a need to present additional information for certain transactions to facilitate understanding by users."

It may be useful to add guidance similar to that in ISA 700 with respect to:

- A description stating that the financial statements have been prepared in accordance with a framework and is appropriate only if the financial statements comply with all the requirements of that framework.
- Qualifying or vague language should be avoided (e.g.: the financial statements are substantially in accordance with IFRS).

Auditor's Report



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- The reporting format does not include the key audit matters paragraph (ISA 701), which is reasonable in the context of less complex entities.
- The reporting format does not include the section on reporting on other legal and regulatory requirements. We consider it crucial to suggest that guidance be included in this regard, as it is common (e.g., in Colombia) for LCE auditors to be required to conclude on aspects of regulatory nature.
- The requirement that the auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion, unless required by law or regulation to do so, is maintained. Although the use of experts may not be very common in the case of LCEs, the requirement is relevant.

9. Modifications to the Opinion

It is in line with that established in ISA 705, and therefore we find this item in accordance with the requirement. Necessary reference in the context of report responsibility: the requirement for opinion to be modified is considered relevant.

Conclusions

The **INCP** appreciates the effort made by the IAASB in the development of this much needed standard, a standard with basic and simple criteria to facilitate the work of auditors, while maintaining the connection and harmony with the general objectives of the ISAs. The new standard would become a tool for CPAs to engage, plan and execute LCE audits at reasonable costs to management and under simpler technical documentation criteria that mitigate the risks of professional exposure. Nevertheless, as part of its comments on the exposure draft, the community recommends defining in more detail the criteria for the applicability of the standard to speed up its adoption in the different jurisdictions and avoid waiting for an implementation guidance.

It is suggested that a document containing the challenges of this new standard be prepared so that stakeholders may easily identify the key issues for input or comments.

Concerning the voluntary application of the "Engagement Quality Management" part, **INCP** believes that it is appropriate for those firms considering that the full application of the International Standard on Quality Management 2, Engagement Quality Reviews may have a significant impact



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on their operations; accordingly, it also deems appropriate partner responsibilities for managing quality.

In the regulations, it is advisable to clearly describe the type of audits, adapted to our environment, in which the ED-ISA for LCE can be applied, in accordance with the guidelines of paragraph A7 of the ED.

Despite the fact that the Small and Medium Practices Advisory Group of the International Federation of Accountants accepts the recommendations to make a more specific standard, for the purposes of our country and especially for the provision of statutory audit services, we will require an implementation guidance to support the statutory auditors, as in some cases it will have an impact on their functions and/or responsibilities. The purpose of this is to clarify and detail the most relevant issues for compliance with the standard and to help auditors support their professional judgment in undertaking their work. For example, one of the relevant issues to be reviewed in the standard is the documentation of audit work and the retention of this information. **INCP** suggests that local regulations should make special reference to the application of the standard in those audits that are directed and performed by a single practitioner.

Should you require further information on these answers, please do not hesitate to contact us.

Best regards,

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Executive Director

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