

29 Jan 2022

Mr. Kai Morten Hagen  
Chair of the Task Force for the ED-ISA for LCEs project, IAASB  
International Federation of Accountants  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York, 10017 USA

**Dear Chair,**

The Saudi Organization for Chartered and Professional Accountants (SOCPA) welcomes this opportunity to offer its comments on the Exposure Draft- *Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)*. Our interest in this standard comes from SOCPA's continuous efforts to provide sufficient technical support to accounting professional individuals and institutions, specifically the Small and Medium Practices (SMPs). We have issued various rules and technical guidelines which have been designed to attract and help professionals working specifically in SMPs which primarily provide their services to small and medium entities (SMEs). Thus, we believe the IAASB's effort in pursuing this standard comes in parallel with SOCPA's local initiatives to support SMPs to secure the appropriate quality of auditing practices.

The full details of our responses to the relevant questions included in the ED are attached in the Appendix to this letter.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,



**Dr. Ahmad Almeghames**

**SOCPA Chief Executive Officer**

## **Appendix: SOCPA Comment letter: Exposure Draft- Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)**

### **General comments**

We are supportive of the IAASB’s initiative to address the complexity, understandability, scalability and proportionality (CUSP) issues in the ISAs regulating the auditing practices. As such, we support this initiative to issue a standalone ISA standard regulating the audit of Less Complex Entities (LCEs). These entities represent a significant part of any economy, and many jurisdictional (local) regulations, including in Saudi Arabia, require that their financial reports should be audited by an independent auditor. This requirement covers private, public and not-for-profit entities.

However, we do have some concerns regarding this project which can be highlighted in the following bullet points:

- a- There is additional reliance on auditors’ professional judgment although it has been frequently pointed out as an area of criticism.
- b- The “prohibitions” and “limiting criteria” approaches used to help determine the standard’s authority may have unintended implications. Although a clear message is being communicated within the ED-ISA for LCEs that the main objectives of the ISA to secure high quality and achieve reasonable assurance is maintained in the proposed standard, the excessive focus on prohibiting and limiting the use of the standard may convey an unintended message that this standard promotes lower quality or level of assurance.
- c- There is some complexity related to the authority approaches to assess what counts as LCE. A.7, A.8 and A.9 paragraphs look slightly challenging to comprehend as using two approaches increase the level of cognitive analysis (judgment) required to determine the appropriateness of applying the standard to an entity. Additionally, the judgment is informed by different aspects including auditors’ experience and knowledge, and the relevant environment. Therefore, the qualitative characteristics should be broad enough to cover various important characteristics. For instance, in paragraph 30(b) of the proposed supplemental guidance for the authority of ED-ISA for LCEs, one of the characteristics that may render an entity complex is the availability of an internal auditing department while Saudi local regulations require some entities such as not-for-profit (including small and less complex ones) to adhere to certain corporate governance requirements including the employment of an internal auditor.
- d- The efforts made to limit the length of the ED-ISA for LCEs’ resulted in combining some parts from the ISA’s requirements. In our view, this may have created a level of difficulty to comprehend these requirements and secure their intended meaning while translating them to other languages.
- e- There is a clear indication that ISA is regulating the audit of historical financial information while ED-ISA for LCEs is left general as regulating the audit of the LCEs’ “financial statements”. This may encourage unintended interpretations of the requirements.

#### **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?**

As noted above in our general comment, the development of a standalone standard is beneficial to the needs of certain stakeholders, specifically SMPs and LCEs. However, the excessive emphasis on the limitations of the proposed standard’s usage may imply that the standard provides a lower level of assurance and quality. Additionally, assessing the applicability of the proposed standard to a client (an entity) is an additional requirement of judgment which may add burden on auditors’ judgment which is already overloaded with many judgmental issues. It is noteworthy that these expressed concerns should only be considered, and they do not affect the quality of what has been established in the ED-ISA for LCEs.

- (b) **The title of the proposed standard.**

We found the proposed standard’s title revealing and explaining the content as well as the objective of the standard. However, although we appreciate the IAASB’s intention to make the standard proportionate to the nature of such entities rather than the mere size classification, offering new terminology may cause unintended misconceptions. Therefore, we concur with the effort made to explain the new term against the common terminologies used to describe small and medium-sized entities. This is important to add to auditors’ knowledge while making their judgement whether an entity is LCE or not.

- 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?**

As stated above, point 5 in the preface indicates to the ISAs as mainly regulating the audit of historical financial information while point 6 where the amendment was made highlights the new standard (ED-ISA for LCEs) as guiding the audit of the financial statements with no specification made to the orientation of the financial information being audited. It is commonly understood ISA is regulating the audit of historical financial information. However, we think that certain specifications can improve clarity and limit any misinterpretations.

#### **Section 4B – Authority of the Standard**

- 1. 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?**

As noted in the general comment, we could not see the necessity of offering two approaches to help professionals (professional regulators and practitioners) in deciding the eligibility of an entity to be deemed LCE. We believe that offering only certain qualitative characteristics can serve the purpose of enriching the judgment of auditors and satisfying the objectives of the standard while securing the proposed design and structure method of the Standard (the principle-based approach). Nonetheless, there are some straightforward prohibitions of certain classes of entities or not, the overall application of the proposed standard is still substantially restricted to auditors' professional judgment. Thus, we propose that the list of prohibited classes of entities can be rephrased and represented as a part of the qualitative characteristics that the auditors have to take into consideration while assessing the appropriateness of using the ED-ISA for LCEs. For example, A.7(c) can be rephrased and represented in the qualitative characteristics section as "one of the entity's main functions involves one of the following; taking deposits from the public, providing insurance to the public...etc." We believe that this could increase the clarity and understandability of the requirement since auditors do not need to get overwhelmed with the existence of two interrelated approaches. Applying this proposed approach is not expected to impact the authority requirement but instead it offers the advantage of limiting variances and repetition of ideas and increases the clarity and, consequently, the understandability and applicability of the requirement. Additionally, the reliance on only one approach which is the "qualitative characteristics" meets the principle-based nature of the ISA and enhances auditors' current responsibility to appropriately use their professional judgment to assess the appropriateness of applying the proposed standard to an entity. Finally, it should be noted that this approach does not contest the idea that the qualitative characteristics list cannot be exhaustive and auditors still need to apply their judgment to assess all relevant matters, nor it contradicts the strict prohibitions and exclusion of certain classes of entities. That can be highlighted, for instance, using a clear statement indicating that "the existence of only one characteristic included in (a), (b)...etc shall make the application of ED-ISA for LCEs inappropriate". The requirements are still the same, but the way they are presented could be more encouraging.

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

As highlighted before, the excessive use of the "prohibitions" terminology may discourage auditors from using the standard because they could broadly find no major differences to the work they are anticipated to do in terms of the full ISAs' requirements to achieve the reasonable assurance and offer the appropriate quality. They are eventually expected to use their judgment to determine the appropriateness of implementing the proposed standard to an entity.

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

In light of the comment we introduced in points (a) and (b), yes we believe that the authority section of the proposed standard satisfies the objectives of informing the standard's potential stakeholders.

- (d) **Is the proposed role of legislative or regulatory authorities or relevant local bodies with standard-setting authority in individual jurisdictions clear and appropriate?**

We believe that reasonable efforts have been devoted in the ED-ISA for LCEs to consider the important roles of the different levels (including the IAASB level, local regulatory bodies and firm levels) in authorizing the application of the proposed standard to certain entities. The proposed standard has given sufficient room for jurisdictional regulatory bodies to make more specifications that correlate more with their local environments. However, we believe there is a need for more guidelines on the best approaches to help jurisdictional accounting regulators to map out this proposed standard against their jurisdictional laws, regulations, or guidelines addressing the identification of SMEs as well as the audit of these entities.

2. **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.**

Taking into consideration what was introduced in points (a) and (b), we found the excessive emphasis on prohibiting or limiting the use of the standard may have unintended consequences on auditors' willingness to apply the standard. Therefore, since we believe that this proposed standard provides clear, direct and understandable guidelines which can help specifically SMPs who mostly provide their services to LCEs, we propose amending the discouraging tone of voice introduced in the ED-ISA for LCEs with a more objective approach (restricting the standard's authority approaches to one approach "qualitative characteristics) which can maintain the core requirements while securing the applicability of the standard.

3. **Regarding the Authority Supplemental Guide:**

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

Yes, we found the authority supplemental guide very helpful in understanding authority matters. The Essential Explanatory Material (EEM) as well as the table containing different exemplary cases have made the authority stipulations clearer. However, as noted in our comment earlier, the strong emphasis on the idea of limiting the use of the proposed standard could have unintended consequences. Therefore, some rephrasing is required to lower this prohibiting and limiting tone without harming the intended objectives of the proposed standard.

#### ***Section 4C – Key Principles Used in Developing ED-ISA for LCE***

1. **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:**

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

We found the approach to include the objectives of each part of the ED-ISA for LCEs clear, understandable and helpful. However, we believe that presenting the objectives in the introductory box with the content and scope of each part can better distinguish the objectives from the requirements, and match the intended purpose of explaining the objectives of each part. It has been made clear that the objectives are set out to exhibit the ISA's principle-based approach through establishing the ultimate meaning of each audit procedure while they are not stipulating any requirements of specific procedures. They add to the overall understanding of the standard's requirements which is significant to enhance the compliance with requirements, and, in our view, this eventually resembles the intended purpose of the introductory box.

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

The principles related to professional judgment and professional skepticism appear to be clear and helpful to comprehend the necessity to practice those concepts during the auditing process (planning and performing audit). However, we believe that an emphasis could be made in paragraph (1.4.4.) to highlight the importance of using professional judgement in assessing the complexity of client-specific circumstances which may disqualify the client from being LCE and therefore a judgment should be made about the appropriateness of continuing applying the ED-ISA for LCEs.

(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.**

The guidance provided by the EEM is sufficiently clear and comprehensible and serves the intended purpose of its inclusion. Its presentation within the ED-ISA for LCEs is clear and well designed, however, we believe that starting each EEM blue box with a title as well as structuring its content with a certain systemic numbering could add more clarity.

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

1. **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).**

In our view, the overall design and structure of the ED-ISA for LCEs satisfy the main purpose of developing a separate standard where ISA requirements are made clear, understandable and

proportionate to the nature of LCEs. Drafting the requirements in a clear, understandable, simple and concise way is found helpful and practical. Structuring the core requirements of parts 4-9 in a manner that corresponds to the typical flow of an audit is exceptionally found beneficial to ease navigating, comprehending and potentially applying the requirements. We believe that this does not only help with the clarity and understandability of the standard's requirements but also can educate SMPs (especially newcomers) to consider every requirement where it should be applied. On the other hand, we could here express a concern pertaining to the approach utilized to combine some requirements from the ISAs in order to make them more concise because it sometimes seems to complicate the flow of the requirements which could eventually create some challenges in the translation process. This concern is only raised to attract attention to the possible unintended outcome of such an approach.

#### ***Section 4G - Approach to Consultation and Finalization***

##### **1. What support and guidance would be useful when implementing the proposed standard?**

In our view, there are some useful approaches which can provide valuable guidance. These approaches could include creating and offering e-learning courses on ISA for LCEs, online audit simulation trainings and developing guidance templates to improve documentation on complex audit areas, like accounting estimates, risk assessment or journal entry testing, etc. (preferably in top 5 languages spoken world-wide). This can be either done by IAASB team or IAASB can encourage others, like private publishers (under supervision of IAASB) or the big 4 audit firms for development of such materials, which will really help educating auditors and improving overall audit quality.

##### **2. 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.**

As expressed before, certain endeavours that have been made to limit the length of the proposed standard may have sometimes rendered the standard's wording look condensed and challenging. Accordingly, this may lead eventually to some challenges while conducting the translation process to other languages. These challenges are related to conveying the full core requirements without losing the meaning or expanding the length of the standard.