



Our Ref.: C/AASC

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28 January 2022

International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York, NY 10017
USA

Dear Sirs,

IAASB Exposure Draft, *Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities*

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only statutory body in Hong Kong that sets auditing and assurance standards, ethical standards and financial reporting standards. We welcome the opportunity to provide our comments on the captioned IAASB Exposure Draft (ED-ISA for LCE or ED).

We appreciate the IAASB's initiatives and efforts in developing this ED. The IAASB has taken an important step forward in addressing the challenges of using ISAs in LCE audits. We support the broad principles to develop a separate standard for an audit of the financial statements of an LCE, which would provide a reasonable assurance and high quality audit engagement to enhance the credibility of the financial statements for the users thereof.

We consider the ED has addressed most of the challenges in LCE audits initially discussed in the IAASB's Discussion Paper issued in 2019¹, such as concerns on language and length of the International Standards on Auditing (ISAs); lack of clarity as to what needs to be done or why. However, around one third of the respondents from the HKICPA LCE survey indicated that they might not use the ED for eligible LCE audits because, compared with performing an audit using the ISAs, there is no perceived reduction in workload and effort from using the ED. To support the rollout and application of the ED, we urge the IAASB to enhance communication and education effort so that auditors, regulators, stakeholders and the public in general are aware of the ED's objectives, scope, benefits etc.

Based on the feedback received from our outreach activities, practitioners of small- and medium-practices in Hong Kong have expressed concerns on the proposed limitation on the use of ED-ISA for LCE, such as in respect of audits of entities holding investment properties with fair value accounting estimates using Level 3 inputs, entities operating in new or emerging markets, or entities in the development stage. Given that the ED-ISA for LCE is a principle-based standard, additional guidance or examples on the use of the proposed standard in circumstances with conflicting facts and circumstances exhibited by an entity would provide clarity as to the authority of the proposed standard and would enhance consistency in its application.

¹ IAASB Discussion Paper, *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the International Standards on Auditing (ISAs)*



In principle, we are supportive of the standalone nature of the ED. However, local stakeholders are concerned that without any fall back mechanism to ISA requirements (in very specific or limited circumstances), there would be less enthusiasm to use the proposed standard.

In applying the proposed guidelines on complexity, understandability, scalability and proportionality (CUSP), the IAASB has made good efforts in keeping the ED concise and succinct. We would suggest the IAASB to revisit the sufficiency of essential explanatory material (EEM) and extend it as necessary to ensure consistent understanding and application of ED-ISA for LCE. Developing additional application guidance outside the standard would also be helpful without adding to the volume of the standard.

Local stakeholders have a strong view to include group audits in the scope of the proposed standard. In Hong Kong, the group structures of LCEs are often not complex and the absence of group audits in the proposed scope would limit the number of audits being conducted using the proposed standard.

We are also of the view that the proposed standard would need to include some guidance as to how it interacts with the ISA-800 series in order for it to be a separate standalone standard.

We trust that our comments are of assistance to you. If you require any clarifications on our comments, please contact Selene Ho, Deputy Director of the Standard Setting Department (selene@hki CPA.org.hk).

Yours faithfully,

Jonathan Ng
Deputy Chief Executive



Work undertaken by HKICPA in forming its views

The HKICPA:

- (a) issued an Invitation to Comment on the ED on 27 July 2021 to members of HKICPA and all other interested parties;
- (b) hosted a roundtable discussion on 9 November 2021 to solicit input from interested parties and stakeholders;
- (c) invited HKICPA members working in the auditing sector to participate in a Hong Kong specific survey with yes/no questions on the attributes of the ED;
- (d) sought input from HKICPA's Small and Medium Practices Committee which comprises practitioners and technical experts from small and medium-sized practices in Hong Kong;
- (e) developed its views through its Auditing and Assurance Standards Committee, having reflected on feedback obtained from stakeholders. The Committee comprises of academics, regulators and practitioners from small, medium and large accounting firms.

This comment letter outlines the HKICPA's views and summarizes our stakeholders' primary comments on the ED.

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

Question 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?*

We agree on the standalone nature of the proposed standard.

One of the objectives of the ED is to facilitate an LCE audit in an effective and efficient manner. We believe the standalone nature of the proposed standard, drafted using concise and understandable language with appropriate length would serve this purpose. This is in line with our comment letter to the IAASB's *Discussion Paper Audits of Less Complex Entities* in 2019 where we suggested that developing a separate auditing standard for audits of LCEs based on the existing ISAs and scaled down for LCEs would be the most favored option among stakeholders in Hong Kong.

Based on our outreach activities, we note that regulators in Hong Kong, some of which are key stakeholders of audited financial statements, are generally supportive of the proposed standard and have not raised any concern or matter on the proposed standard or to the "specific questions" raised in the ED.

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

We consider the title of the proposed standard appropriate which reflects its nature and objective.



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

The requirements in the proposed ED-ISA for LCE are based on the ISAs, having the same overall objectives and inherent limitations as an ISA audit. This enables the ISAs to retain its principles and methodology while requirements applicable to LCE audits are carved out into a separate document. We believe the tight links with the ISAs will enhance confidence of stakeholders and users of auditor's reports in audits applying ED-ISA for LCE.

Question 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?

We do not have any comments to this question.

Section 4B – Authority of the Standard

Question 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?*
- (b) *Are there unintended consequences that could arise that the IAASB has not yet considered?*
- (c) *Are there specific areas within the Authority that are not clear?*
- (d) *Will the Authority, as set out, achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed 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?*

We believe the Authority is implementable.

The Authority requires a four-level assessment together with the “stand back” requirement by the engagement partner to ensure the appropriate use of the proposed standard, thereby minimizing the risk of any inappropriate application.

With respect to specific areas of the Authority, we have detailed our comments in our responses to Question 4.



Question 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.

In general, we agree with the proposed limitations relating to the use of ED-ISA for LCE, which consider an entity's complexity from a range of perspectives.

We are supportive of the approach taken by the IAASB due to the varying sizes of economies and sophistication of jurisdictions. It would not be feasible for the IAASB to include any size-related approach. We also agree with the approach in the ED that allows national standard setters to consider quantitative thresholds that are appropriate for their jurisdictions.

With respect to the qualitative characteristics, we have the following observations:

i. Applicability of ED-ISA for LCE to entities with accounting estimates

As currently drafted, ED-ISA for LCE is inappropriate if the entity's accounting estimates are subject to a higher degree of estimation uncertainty or the measurement basis requiring complex methods that may involve multiple sources of historical and forward-looking data or assumptions, with multiple interrelationships between them. (paragraph A.9. of ED-ISA for LCE)

The IAASB provides additional information on the application of the ED in the proposed Authority Supplemental Guide. It includes an example that the proposed standard is inappropriate in the case of fair value accounting estimates that use unobservable inputs, i.e. Level 3 inputs under IFRS 13 *Fair Value Measurement*, to measure fair value of an asset or liability.

In Hong Kong, it is common for a non-regulated private entity, without substantial businesses and/or operations, solely to hold an investment property (IP) accounted for using fair value with Level 3 inputs. The prohibition and example set out above would exclude an entity holding an IP from the scope of ED-ISA for LCE, although it would otherwise qualify as an LCE under the proposed standard.

We would recommend the IAASB to re-consider whether in the specific circumstance that entities holding IPs with fair value accounting estimates using Level 3 inputs would automatically be ruled out from applying ED-ISA for LCE in their audits. Particularly, we suggest the IAASB to remove explicit reference to the fair value hierarchy in IFRS 13 when describing the restriction concerning auditing accounting estimates, recognizing the following:



- While an IP valuation would typically require Level 3 inputs, property markets in jurisdictions such as Hong Kong are active and transparent with readily available historical and forward-looking data or assumptions. This is evidenced by the instant and free-of-charge property valuation services for major residential properties offered by a number of valuation companies and banks in Hong Kong to assist property buyers to assess the property values.
- Although significant judgement (i.e. unobservable input) is required to determine each IP valuation to account for differences in location, building condition etc., most IP valuations in Hong Kong are performed by professional valuers using recognized valuation framework and techniques. Despite the use of Level 3 inputs, market transparency and the use of professionals to perform the valuation has greatly reduced the uncertainty in an IP valuation.
- Specifying prohibition with reference to the fair value hierarchy in IFRS 13 would be too rigid, prescriptive and moving away from the “principle-based” approach intended for ED-ISA for LCE.

In addition to the above, we also propose enhancing the requirements and materials on auditing accounting estimates in ED-ISA for LCE to expand its scope to deal with accounting estimates involving circumstances such as those relating to the IP valuation.

ii. Limitations through qualitative characteristics

Some of our stakeholders expressed concern that applying qualitative characteristics to determine the applicability of the proposed standard involves a high level of professional judgement and poses practical difficulty. Take for example an entity with its core business in developing IT software and infrastructures which is expected to remain inactive for the next two years with limited transactions. Arguably, the nature and extent of its business activities is complex but its inactive status indicates that its auditors would otherwise be eligible to apply ED-ISA for LCE.

We note that the IAASB acknowledges auditors’ practical difficulty to assess the use of the proposed standard through qualitative characteristics in paragraph A.9. To address stakeholders’ concern, we suggest the IAASB to develop additional guidance or examples on the use of the proposed standard in case of conflicting facts and circumstances exhibited by an entity.

In addition, we would suggest the IAASB to re-consider the drafting of the following sentences in paragraph A.9. which seem contradictory and confusing:

- ... the [draft] ISA for LCE is inappropriate for the audit of the financial statements if an entity exhibits one or more of the following characteristics
- ...The presence of one characteristic exhibited by an entity does not necessarily exclude the use of the [draft] ISA for LCE for that entity



iii. Entities operate in new or emerging markets, or entities in the development stage

Paragraph A.9. of the ED includes an example that the proposed standard is inappropriate when an entity operates in new or emerging markets, or entities in the development stage because the resulting pervasive risks increase the complexity of the audit.

We consider the above examples are too restrictive and might result in an unintended consequence of excluding an otherwise simple entity from the proposed standard. For example, a start-up entity engaging in a straightforward, traditional business might be an LCE within the scope of the proposed standard. We believe the complexity of an entity does not necessarily relate to its stage of development.

Question 5

Regarding the Authority Supplemental Guide:

- (a) *Is the guide helpful in understanding the Authority? If not, why not?*
- (b) *Are there other matters that should be included in the guide?*

We believe the Authority Supplemental Guide is informative and helpful in understanding the Authority of the ED.

We however wish to draw your attention to our responses to Question 4 regarding an example in the proposed Authority Supplemental Guide that ED-ISA for LCE is inappropriate in the case of fair value accounting estimates that use unobservable inputs, i.e. Level 3 inputs under IFRS 13 *Fair Value Measurement*, to measure fair value of an asset or liability.

Question 6

Are there any other matters related to the Authority that the IAASB should consider as it progresses ED-ISA for LCE to finalization?

We do not have any additional comments.

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

Question 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).*
- (b) *The approach to the objectives of each Part of the proposed standard (see paragraphs 78-80).*
- (c) *The principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management (see paragraphs 81-84)*

We are supportive of the IAASB's approach with respect to (a), (b) and (c).



- (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.*

EEM is designed to provide further explanation relevant to a sub-section or a specific requirement. However, we note that not all concepts or requirements in the ED are explained to the extent necessary for a proper understanding thereof. We are concerned as to the sufficiency of EEM, particularly given the standalone nature of the ED.

For instance, audit sampling is dealt with in paragraphs 7.3.5 to 7.3.7 of the ED with only one EEM on misstatements projection. This is a big contrast to ISA 530 *Audit Sampling*, of which the length of the application and other explanatory material is similar to that of the requirements. We also compare the sufficiency of EEM to ISA 315 (Revised 2019) and ISA 540 (Revised). The length of the application and other explanatory material in the latter two ISAs is several times that of the corresponding requirements.

Although it is the IAASB's intention to limit EEM to "essential" matters for succinctness, we question whether they are sufficient to ensure auditors' proper understanding in and implementation of the relevant requirements, given the ED's standalone nature and there is no fallback to the application and explanatory materials in the ISAs. As the ED-ISA for LCE shares the same principles and methodologies with the ISAs, not having sufficient EEM may be a practical challenge for auditors not experienced in the ISAs. We therefore suggest the IAASB to revisit the sufficiency of EEM and extend it as necessary to ensure consistent understanding and application of ED-ISA for LCE. Developing additional application guidance outside the standard would also be helpful without adding to the volume of the standard.

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

Question 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 (paragraphs 98-101).

Please refer to our responses to Questions 1 and 7.

Section 4E – Content of ED-ISA for LCE

Question 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.

Please refer to our responses to Question 12.



Question 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.*

i. Specific circumstances when the auditor's opinion is to be modified

Table C in Part 9 provides practical guidance to assist auditors in forming an opinion. It sets out 20 scenarios which would result in modifications to the auditor's opinion under ED-ISA for LCE. They cover circumstances ranging from opening balances, non-compliance with laws or regulations to external confirmations.

Some of our stakeholders considered that specifying scenarios resulting in modifications would be too prescriptive, being an approach not used in other ISAs. Also, the lengthy table may mislead auditors to consider the list is inclusive of all possible modifications. This might unintentionally mislead an auditor to issue an unmodified opinion inappropriately in case of a situation not addressed in Table C.

To avoid misunderstanding, we suggest the IAASB to incorporate Table C into the Reporting Supplemental Guide rather than including it as part of the proposed standard.

ii. Illustrative auditor's report

Part 9 provides an illustrative auditor's report on an unmodified opinion, but has not illustrated other types of opinions such as a qualified opinion, adverse opinion and unmodified opinion with material uncertainty relating to going concern which are included in the Reporting Supplemental Guide.

For completeness and ease of use, we recommend that the IAASB to re-locate various illustrative opinions from the Reporting Supplemental Guide to the proposed standard.

Question 11

With regard to the Reporting Supplemental Guide,

- (a) Is the support material helpful, and if not, why not?*
- (b) Are there any other matters that should be included in relation to reporting?*

We find the support material helpful.

Please refer to our responses to Question 10 on our comments relating to the Reporting Supplemental Guide.

Question 12

Are there any areas within Parts 1 – 9 of the proposed standard where, in your view, the standard can be improved? If so, please 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.

We would like to propose the following editorial comments for the IAASB's consideration:

- Paragraph 1.2.1 requires the auditor to comply with *relevant ethical requirements*, including those pertaining to independence, for financial statement audit engagements. However, the proposed standard does not make explicit reference on what ethical requirements the auditor should comply with. Although the definition is given in the "Glossary of Terms", we suggest to include an explicit reference of *relevant ethical requirements* in the proposed standard for ease of reference and clarity, without requiring auditors to locate it separately.
- In paragraph 6.2.2, suggest to delete full stop after (b) and "and" at the end of (b) if the auditor is not required to perform all of these procedures stated in 6.2.2.
- In paragraph 9.6.4, suggest to delete "or a section dealing with other information" as there is no guidance in Table D relating to other information section. The guidance on other information is in Table E in paragraph 9.8.9.

Section 4F – Other Matters

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

According to paragraph 4.2.1 of the ED, the engagement partner shall determine at the client acceptance or continuance stage whether the audit engagement can be undertaken using the proposed standard.

Subsequently, if a matter or circumstance is found during the audit that exhibits complexity that has not been contemplated by the proposed standard, a determination will need to be made whether ED-ISA for LCE is still appropriate or the audit will need to be transitioned to the ISAs or other applicable auditing standards.

The IAASB explains that "it should be relatively rare for an audit of an entity to need to transition after engagement acceptance or continuance from using ED-ISA for LCE to using the ISAs." (paragraph 131 of the Explanatory Memorandum)

However, our stakeholders considered circumstances during an audit that triggers the need to "transition" would not be extremely rare. Such circumstances may arise either (1) as a result of the additional information that the auditor obtains when performing the audit, or (2) as a result of unforeseeable events that occurred subsequent to the client acceptance or continuance process.

In the case of (1), typically the auditor would not obtain a detailed understanding of each of the elements of the financial statements at the engagement acceptance or continuance stage of the audit. Although the ED-ISA for LCE requires the auditor to determine that the audit engagement is an audit of an LCE as part of the acceptance or continuance procedures, additional information about the specific elements of the



financial statements may only be obtained as part of the detailed planning or through the completion of further audit procedures. For example, the model required to be used to estimate the value of an investment may be more complex than originally expected as further details regarding the characteristics of the investment are obtained and assessed by the auditor.

In the case of (2), for example, for a December year-end audit engagement accepted and determined to be eligible for ED-ISA for LCE at the start of the financial year (e.g. January), unforeseeable circumstances subsequent to client acceptance could include the following:

- An entity's unplanned restructuring on reporting lines to accommodate its business activities which may have changed, with many individuals involved in financial reporting.
- After an unexpected hacking, an entity upgrades its IT system from off-the-shelf software to complex or sophisticated software with extensive controls in relation to obtaining, transmitting, and processing data and maintaining the integrity of data.
- An LCE's investment listed on a well-recognized exchange is unexpectedly suspended from trading, requiring the use of a complex model to estimate its fair value for the LCE's year-end reporting.

Our stakeholders expressed that it would be frustrating to transition an “audit-in-progress” from the proposed standard to ISAs or other auditing standards, which could be detrimental compared with applying the ISAs from the beginning. The requirement to transition simply due to one area of complexity uncovered during the audit is too rigid and is against the ED's objective to facilitate LCE audits. Our stakeholders generally suggest allowing a “top up” approach in exceptional circumstances where a specific issue revealed during the audit may not be adequately or comprehensively covered in the proposed standard, but all other issues in the audit are adequately covered by the ED. Also, if the “complexity” only exists temporarily for one reporting period, it is not desirable for auditors to shift from the proposed standard to ISAs or other auditing standards from year to year.

We recognize the IAASB's view that the standalone nature of the ED means that there is no ability to directly reference back to the ISAs to allow the auditor to use ISA requirements for matters or transactions that are not included in the proposed standard. However, we also share stakeholders' concerns on disallowing the continuing use of ED-ISA for LCE in case of an unforeseeable circumstance uncovered during the audit.

To strike a balance, we would like to suggest the following:

- (1) The ED to allow an LCE audit to fallback to specific ISA requirements on narrow-scope subject matters not otherwise contemplated in the proposed standard, such as auditing complex accounting estimates under ISA 540 (Revised). We suggest the IAASB to make reference to the drafting of *IFRS for SME* which includes an option for entities to apply the recognition and measurement requirements of *ISA 39 Financial Instruments: Recognition and Measurement* in place of relevant requirements of the standard.
- (2) The fallback approach is only applicable to a matter uncovered during the audit which is among the narrow-scope subject matters defined by the ED.



We recognize that any such fallback approaches may be difficult to apply consistently in practice and may result in unintended consequences, and accordingly any such concessions will need to be carefully assessed by the IAASB to determine an appropriate response to challenges relating to transitioning from ED-ISA for LCE to ISAs or other auditing standards.

Question 14

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

ED-ISA for LCE is consistent with the ISAs, having the same objectives and inherent limitation to achieve the same level of assurance. Accordingly, future updates to the ISAs should include a parallel consideration on the equivalent updates (where applicable) to ED-ISA for LCE, with the same effective date, to eliminate contextual and timing differences which may cause confusion for auditors and stakeholders. Any such timing and contextual differences may also cause concern on the objective of the proposed standard to achieve a quality audit as the ISAs do.

Question 15

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

Following our comments to Question 14, any early adoption to subsequent revisions to the proposed standard should align with that of the ISAs on equivalent revisions.

For revisions not necessarily related to updates to the ISAs, we suggest that an option of early adoption be allowed as in the ISAs.

Question 16

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

In Hong Kong, it is not uncommon that a special purpose audit under ISA 800 (Revised) or ISA 805 (Revised) be carried out for regulatory or other purposes. The application of ISA 800 (Revised) and ISA 805 (Revised) eases auditors' effort to duplicate the work already performed in auditing the underlying general purpose financial statements under the ISAs.

The absence of a section equivalent to the ISA 800 (Revised) series would restrict auditors from using ED-ISA for LCE to perform special purpose audits. This is particularly burdensome if a special purpose audit is required after the auditor completes an audit under ED-ISA for LCE.

The ISA-800 series would also need to be updated to clarify interaction with the proposed ISA for LCE on matters such as:

- Could an auditor conduct a special purpose audit using ISA 800/ISA 805 and ISA for LCE? In special purpose audits, other ISAs in addition to ISA 800/ISA 805 are also applicable.
- What is the interaction between ED-ISA for LCE and ISA 805 (Revised) for an adverse opinion or a disclaimer of opinion issued under ISA for LCE?
- Could a report on the summary financial statements be performed under ISA 810 (Revised) where the financial statements are audited under ED-ISA for LCE?



It would be helpful if the IAASB could clarify the interaction between the proposed standard and the ISA-800 series, or include a separate part on the ISA-800 series in the ED to address the issue.

Question 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.

Stakeholders in Hong Kong welcome the IAASB's initiative to develop a separate standard on LCE audits.

We consider that the proposed standard can and will be used in Hong Kong, subject to any regulatory or legal restrictions applicable to specific entities.

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

We believe the proposed standard facilitates LCE auditors to understand and focus on requirements required in LCE audits, but does not necessarily result in savings in time and effort.

ED-ISA for LCE is a standalone, self-contained standard focusing on LCE audits. Audit procedures in the ISAs not relevant to an LCE are not included. This saves auditors' time and effort from justifying and documenting why certain procedures are not applicable or performed. The appropriate length of the ED also means that auditors of LCE do not need to go through the application and explanatory materials in the ISAs and scale down the requirements with reference to each circumstance. Instead, auditors could simply focus on the requirements in the ED which are LCE-audit driven.

However, some of our stakeholders do not consider the proposed standard would lead to reduced time and effort (see our responses to Question 23(a)). We also think that the EEM in the ED is not necessarily sufficient to ensure sufficient understanding in ED-ISA for LCE which might result in diversity in practice (see our responses to Question 13).

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

Please refer to our comments to Question 4 on limitations through qualitative characteristics; Question 7 on the sufficiency of EEM and Question 13 on matters relating to transitioning.

Question 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?

The development of ISA for LCE is an important milestone for the IAASB. The IAASB together with the national standard setters need to send a strong message to stakeholders including practitioners, regulators and users of financial statements that an audit conducted under ISA for LCE is a high quality audit to instill confidence and trust.



Section 4G - Approach to Consultation and Finalization

Question 19

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

In 2007, IFAC developed a guide providing practical support for small and medium-sized practices when implementing the ISAs for SMEs². The guide had been revised several times and is in its fourth edition. We find the guide helpful in explaining the ISAs requirements in simple language with illustrative templates and case studies.

It would be helpful if a similar guide could be developed and provided to support the implementation of the proposed standard.

To support the roll out of the ED, we also suggest the IAASB to enhance communication and education effort so that practitioners, regulators, stakeholders and the public in general would be aware of the ED's objectives, appropriate use, benefits etc.

Question 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.

We do not have any comments to this question.

Question 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.

We usually adopt the same effective date as IAASB. We believe the proposed time frame would be sufficient, but the IAASB may consider extending it slightly to 24 months on the basis that local jurisdictions may need to tailor the authority section for the local context.

Section 5 – Group Audits

Question 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.

Our stakeholders have a strong view that the proposed standard should include group audits in its scope. In Hong Kong, it is common that a group of entities having simple operations would otherwise meet the authority of ED-ISA for LCE.

In the interest of time, the IAASB could consider developing the group audits requirements pertaining to ED-ISA for LCE as a second phase of the proposed standard where necessary, without having to delay implementing the contents in the existing ED.

² IFAC's Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities: <https://www.ifac.org/knowledge-gateway/supporting-international-standards/publications/guide-using-international-standards-auditing-audits-small-and-medium-sized-entities>



Question 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?

In September, we invited HKICPA members working in the auditing sector to participate in a Hong Kong specific survey with yes/no questions on the attributes of the ED.

Approximately 67% of the survey respondents indicate that they would use ED-ISA for LCE to audit an entity which is qualified to do so.

The remaining 33% who opts out from using the proposed standard have the following considerations:

- Using ED-ISA for LCE does not necessarily reduce the procedures, time and effort compared with an existing ISA audit.
- It is burdensome to separately invest in staff training, development of tools etc. to cope with the application of two separate auditing standards which require similar workload.

(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?

Responses gathered from our survey are summarized below:

Audits within my firm/practice would be group audits that would likely be able to use ED-ISA for LCE	% of respondents
My firm/ practice does not have group audit engagements	16%
Less than 10%	21%
10% to 30%	21%
30% to 50%	13%
50% to 70%	8%
70% to 99%	15%
100%	6%

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

Our stakeholders generally consider groups that meet the size test of the Hong Kong Companies Ordinance (Cap. 622) for the reporting exemption to prepare simplified financial statements and directors' reports to be less complex³.

³ Details of the reporting exemption is set out in Q3 to Q10 of the FAQ "Accounts and Audits" developed by the Companies Registry of The Government of the Hong Kong Special Administrative Region: <https://www.cr.gov.hk/en/faq/companies-ordinance/co-account-audit.htm>



The size test used in Hong Kong is based on the total revenue, total assets and number of employees of an entity or a group⁴. We recognize that ED-ISA for LCE is a global standard which applying a size-principle approach may not be the intention of the IAASB to address the varying sizes of economies and circumstances across the globe.

Question 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.*

We suggest that option 2 be applied in assessing the eligibility to use ED-ISA for LCE in group audits. Option 2 aligns with the principle-based approach and design of ED-ISA for LCE. Following option 2, we suggest that the applicability to use the proposed standard for group audit engagements be evaluated against the qualitative characteristics in the ED.

Question 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?

We do not have any other comments.

Question 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.*

For ease of application, we suggest to include the relevant requirements in a separate part, such as Part 10.

- End -

⁴ Details of the quantitative threshold applies in the size test is available at: <https://www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Our-views/Standards-Interpretations-Guides-and-PN-Members-Handbook/Reference-Materials/SME-Financial-Reporting-Framework-and-Standard/smeffre2019>