

## OPTIONAL RESPONSE TEMPLATE: PROPOSED ISA FOR LCE

### Guide for Respondents

- The International Auditing and Assurance Standards Board (IAASB) has published this separate Microsoft Word document for respondents to use for submitting their comments, if they wish. The questions below are from the exposure draft of proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities Management (ED-ISA for LCE), which is available at [www.iaasb.org/publications/exposure-draft-proposed-international-standard-auditing-financial-statements-less-complex-entities](http://www.iaasb.org/publications/exposure-draft-proposed-international-standard-auditing-financial-statements-less-complex-entities).
- Respondents are asked to comment on the clarity, understandability and practicality of application of ED-ISA for LCE. In this regard, comments will be most helpful if specific aspects of ED-ISA for LCE are identified and the reasons for any concerns along with suggestions for improvement, are included. Specific suggestions for any proposed changes to wording in ED-ISA for LCE are also welcome.
- **Respondents are free to address only questions relevant to them, or all questions.** When a respondent agrees with the proposals in ED-ISA for LCE, it will be helpful for the IAASB to be made aware of this view as support for the IAASB’s proposals cannot always be inferred when not explicitly stated.
- We request that comment letters do not include tables as they are incompatible with the software we use to help analyze respondents’ comments.

**Comments are requested by January 31, 2022**

<b>Name of Respondent:</b>	<u>Marc Bihain</u>
<b>Organization (<i>where relevant</i>):</b>	<u>IBR-IRE</u>
<b>Country/Region/Jurisdiction:</b>	<u>Belgium/Europe</u>

## General Comments on Proposed ISA for LCE

*[Please include here comments of a general nature and matters not covered by the questions below.]*

Response:

The Belgian Institute of Registered Auditors (IBR-IRE) welcomes the opportunity to comment on the issues and questions raised in the IAASB Exposure draft of proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities Management.

The effort of the IAASB to provide a shorter term solution for the audit of less complex entities is indeed a good initiative as it introduces a proposed standard for less complex entities - that still qualifies as an international standard on auditing - to support auditors of such entities who struggle to apply the current ISAs.

We therefore welcome the initiative of the IAASB with its effort to simplify the audit of less complex entities with the issuance of the proposed ISA for LCE. From an auditors' point of view, it is to be seen if the application of the proposed ISA for LCE will in fact lead to a more efficient audit in comparison to a "smart" application of the current ISAs by professionals with a profound knowledge of these standards. The application of the ISA for LCE does not provide a solution for all audits of SMEs. There are a lot of SMEs that will not fall under the scope of the ISA for LCE and for which nevertheless the current ISAs may appear unneededly complex. The current proposed authority of the ISA for LCE contains an important role for "subjectivity" in judging as to whether the ISA for LCE is applicable or not, and might also lead to possible discussions with local and international regulators on the applicability of the proposed standard for a specific audit, resulting in auditors not using this standard in order to avoid such discussions. Moreover, the existence of two international standards and possible local standards leading to "reasonable assurance" might confuse users of the audit report, especially when the report according to ISA for LCE might be considered as "less qualitative" by the stakeholders using audit reports.

Given the above, IBR-IRE remains a strong advocate of the ISAs as such, which are inherently scalable, and believes that these standards should stay the main reference for an audit. We therefore recommend that the IAASB continues revising the existing ISAs, following a "think small first/building block" principle, with due attention to the use of clear language. Depending on the circumstances and on the characteristics of the audited entity, the auditor will then be in a position to rely on an elaborated audit standard for those topics /items - where this is deemed useful and necessary - and the auditor will be able to apply other parts of the standards following the scalability - wherever possible - based on his professional judgement. This means that the core of the ISAs would only consist of the most fundamental requirements applicable to all audits. The ISAs would then be expanded 'in blocks' as needed to address more complex audit areas and circumstances.

It also remains highly important to develop complementary (digital) tools to provide practical assistance to the auditors and to ensure that the existing tools are known worldwide.

Please find below our reactions to the different questions. As a member of Accountancy Europe, we also refer to their comment letter, which reflects our view.

## Specific Questions

### 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?

#### Response:

As a preliminary remark, audit firms that wish to apply ISAs must still be allowed to do so.

From the point of view of the professionals who use the ISA for LCE, it is good to have a reduced standard. Indeed, the proposed standard itself is approximately 110 pages, which is clearly less than the 1000 plus pages of the ISAs.

The option of having its own standard for less complex entities, without having to include certain aspects of the ISAs, seems valid, because otherwise uncertainty would arise about when certain ISAs or parts of it should still be applied and when not.

However, practice will have to show whether the application of the ISA for LCE will result in a more efficient audit for the professional compared to a "lean and mean" audit approach under the ISA. If, ultimately, its application does not result in an effective efficiency gain for the user/professional, the ISA for LCE has little added value.

In addition, the use of the ISA for LCE is potentially limited given the definition of "complex". If an entity is characterised by complex features, this would imply that this standard cannot be used. Especially, for example, having regard to point 27 of section 4A relating to the overarching positioning of ED-ISA for LCE: if estimates are complex, this does not imply that all aspects of an entity are complex. A broader application of the proposed standard could therefore be found if the definition of complex were to be less comprehensive.

The main key success factor will be the communication efforts to get the buy-in from all stakeholders. We suggest that the IAASB delivers a clear message on the fact that the ISA for LCE provides the same level of assurance as the ISAs (i.e., reasonable assurance). This impacts perceptions about the value of the audit for LCEs and acceptance of the proposed standard.

- (b) The title of the proposed standard.

#### Response:

We have no specific comment in this area.

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

#### Response:

Reference is made to point 29 of section 4A relating to the overarching positioning of ED-ISA for LCE: *"The IAASB also considered the future consequences of using the standalone standard if it were not more intricately linked to the ISAs. The proposed standard is based on the core requirements for an audit within the ISAs, which makes the proposed standard 'easier' to understand and use for those already using the ISAs. In the future, if an auditor did not use the ISAs and only used the proposed standard, concerns have*

*been expressed about the effective application of the requirements (without the accumulated knowledge about the ISAs and the experience in applying them).”*

This is a valid initial comment. Indeed, in practice many auditors will also need to be able to apply the ISAs so that they know both. Auditors who only grow up with the ISA for LCE will also have to be given sufficient framework and training to fully understand everything.

What is essential is that one can indeed continue to express reasonable assurance. Otherwise the application of the proposed standard will effectively lead to the perception of a "light" audit.

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:

We have no specific comment in this area.

#### *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:

There is a broad definition of what “complex” encompasses. In addition, interpretation of the definition is quite subjective which - in the end - could lead to the proposed standard not likely to be used that often as it might be intended by the IAASB. If the interpretation of the word “complex” and the scope of the standard is defined in every country in a different way, the standard will lose its added value.

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

Response:

We refer to our answer under 3 (a).

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

Response:

What is found to be complex or not is subjective which leads to several professionals having a different view. This might then lead to uncertainty as to whether the ISA for LCE can be applied.

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

Response:

Stakeholders will rarely bother reading the standard on auditing. It is important for IAASB to emphasize in its future communication to potential users of audit reports with regard to the proposed standard that it provides “reasonable assurance” and therefore equal to the assurance-level under the current ISAs.

- (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:

This is clear. Locally, additional restrictions can be imposed on the use of this standard.

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:

We do not agree with the prohibition for the group audit: if the group auditor - in consultation with all component auditors, if any - agrees that all individual entities in the group are not complex, it should be possible for the group to apply the ISA for LCE everywhere. There are a lot of smaller groups which are not complex, hence we see no reason **why** this should by definition be excluded.

The possibility left to the professional to interpret qualitative characteristics is useful. However, a few qualitative characteristics referred to in the proposed ISA for LCE do not as such seem to give rise to complexity. Examples can be the IT system, a complex estimate or a start-up operating in a new market.

Although the proposed standard indicates *“the matters described in the list are intended to be considered both individually and in combination. The presence of one characteristic exhibited by an entity does not necessarily exclude the use of the draft ISA for LCE for that entity”*, we believe that this statement should receive a more prominent place in the Authority.

5. Regarding the Authority Supplemental Guide:

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

Response:

The Authority Supplemental Guide is more than helpful.

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

Response:

Regarding the regulatory oversight, its scope needs to be defined. There are a lot of smaller entities subject to regulatory oversight which are not complex (e.g. entities subject to AML regulations (e.g. audit firms / accounting firms / etc.)).

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:

We have no specific comment in this area.

#### *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 IAASB's approach on incorporating the ISA requirements is valid and highly welcomed by IBR-IRE.

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

Response:

We have no specific comment in this area.

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

Response:

We share IAASB's view in this area and underline the importance of using these principles in relation to professional skepticism and professional judgement.

- (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.

We have no specific comment in this area.

- (ii) The sufficiency of EEM.

We have no specific comment in this area.

- (iii) The way the EEM has been presented within the proposed standard.

We have no specific comment in this area.

#### *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 overall design and structure is in line with our expectations.

#### *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.

#### *Response:*

Overall, the ISA for LCE reads as a good summary of the ISAs. Although the ISA for LCE encompasses significantly less pages, the content of a few ISAs is woven through the different parts of the ISA for LCE (e.g ISA 240 on Fraud and ISA 540 on accounting estimates) resulting in the fact that at first sight it is unclear how much efficiency the auditor will gain in applying the ISA for LCE as compared to the current ISA standards. All audit firms that will have both type of clients (LCE and non LCE) might not necessarily use the ISA for LCE for their LCE client, since they have their methodology in place for applying full ISAs and they might choose not to set up a separate methodology for applying the ISA for LCE. Also, if the audit firms would make a fee quote for an audit according to the ISA for LCE which would eventually, after one year, turn into an audit according to the full ISAs given that the complexity has disappeared, the uncertainty created as to the fees agreed upon would certainly not be beneficial to the audit client.

#### **PART 1: FUNDAMENTAL CONCEPTS, GENERAL PRINCIPLES AND OVERARCHING REQUIREMENTS**

We have no further comments.

#### **PART 3: ENGAGEMENT QUALITY MANAGEMENT**

We have no further comments.

#### **PART 4: ACCEPTANCE OR CONTINUANCE OF AN AUDIT ENGAGEMENT AND INITIAL AUDIT ENGAGEMENTS**

We have no further comments.

#### **PART 5: PLANNING**

We have no further comments.

#### PART 6: RISK IDENTIFICATION AND ASSESSMENT

The risk identification process is one of the elements that could be carried out on a more “lean & mean” basis in a LCE audit. The requirements described in Part 6 are mainly based on the ISA 315 revised 2019 version. One should consider simplifying this. It is a fact that controls and the control environment in an less complex entity are far less developed and formalised than in other entities. It may therefore be useful for the proposed standard to foresee a reduced level of audit procedures in relation to these elements for an audit of a less complex entity.

In general, it is also expected that the audit approach of a LCE will less be based on control reliance. We therefore believe that the requirements of the risk analysis in relation to the internal controls should be less thorough and expanded in an audit of a LCE. As such, we are of the opinion that more difference should be made between Part 6 of the ISA for LCE as compared to the full requirements under ISA 315 .

#### PART 7: RESPONDING TO ASSESSED RISKS OF MATERIAL MISSTATEMENT

We have no further comments.

#### PART 8: CONCLUDING

We have no further comments.

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:** We have no specific comments in this area. We find a supplemental guide with examples a more than welcome suggestion

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

**Response:** Examples are always helpful, especially EOM relating to business continuity.



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

**Response:** We do not think so.

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:** We refer to our answer under question 9 above.

#### *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:** “Transitioning” is addressed in case of unexpected complexity. It is an additional subjective element that will give rise to uncertainty as to whether an auditor can and will use the ISA for LCE. In practical terms, the applicability of the proposed standard will therefore be reduced.

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

**Response:** The diagram set out in point 50 of the ED explains clearly the limitations for an individual engagement and what standard to choose in the course of the acceptance of the engagement. A clear matrix that comprehensively indicates the additional steps that need to be carried out when transitioning to the ISAs may also be needed. In this context, reference may be made to the mapping documents, but it is rather exhaustive and not very user-friendly in that area. We suggest for a separate mapping to be foreseen which only includes the paragraphs of the current ISAs that have no equivalent in the ISA for LCE.

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

**Response:** We agree with the amendments to be made in line with possible revisions to similar concepts in the current ISAs. This is useful, in particular, in order to have at least an equal base in circumstances where transitioning to the ISAs is required.

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

**Response:** Early adoption of a standard that is supposedly “better” is certainly an opportunity and may therefore be encouraged provided that it is allowed under the national law.

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

**Response:** Yes, provided that specific and exceptional circumstances require a reference to ISA-800.

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:** If approved at international level and adopted in Belgium, the proposed standard may most likely be used provided that, according to the national legislation, the statutory audit of less complex entities can also be carried out on the basis of this standard. Practice will have to show whether an application of the ISA for LCE to less complex entities effectively means a gain of efficiency for the auditor compared to a correct and sensible application of the ISAs, which indeed will determine whether or not the standard will - to a large extent - be used.

Firms are going to have to be able to apply the ISAs anyway which means that some of the firms will most likely opt for ISAs only instead of applying the standalone standard in certain circumstances.

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

**Response:** We refer to the answer above under 17 (a).

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

**Response:** A more practical matrix rather than an extensive mapping would be more than helpful. Reference is made to our answer under question 13 (b). Also, given that the application of the ISA for LCE is based on the interpretation and the professional judgement of the practitioner, it may give rise to certain issues with the oversight body, should the latter disagree with the reasoning of the practitioner having led to the application of this standard during quality reviews.

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:** The scope of the ISA for LCE may need to be extended through less restrictive and subjective conditions and by covering more aspects relating to accounting estimates so that the presence of more complex accounting estimates will not lead to an exclusion from using the standard. The current ISA 540 is scalable; hence, we suggest to include such an approach in the ISA for LCE leading to the exclusion of complex accounting estimates as a characteristic of complexity.

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

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

**Response:** It would be useful to get an example of a potential audit file carried out under the ISA for LCE and under the ISAs. That would help visualizing the differences and maybe the increased efficiency created by the application of the audit for LCE.

The IFAC Small and Medium Practices Advisory Group may be well-placed to contribute in this area.

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:** IBR-IRE thanks the IAASB for its effort in providing translated versions of the ED and it encourages the IAASB to consider that many translations will still be needed (for Belgium including into Dutch) in order to favour a more mechanical implementation of the final ISA for LCE in the various jurisdictions.

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:** In the light of our response under 20, 18 months may not be sufficient to allow national due process of adoption and translation, should the Belgian regulator choose to effectively approve the ISA for LCE.

#### *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:**

The audit of a group, the components of which on an a standalone basis meet the requirements of a LCE should be included in the scope of the ISA for LCE. Indeed, many less complex entities are components of a group and thus the practical applicability of the ISA for LCE would be reduced if components of a group audit were to be excluded.

If a group as a whole and all its individual components would meet the criteria for not being considered complex, the audit of consolidated accounts of the group and its components should therefore be made possible under the ISA for LCE.

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:** Given that IBR-IRE is the professional accountancy organization for registered auditors and does not carry out audits itself, we are not in a position to respond to this question.

- (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:** Since the IBR-IRE is the professional accountancy organization for registered auditors and does not carry out audits itself, we are not able to respond to this question.

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

**Response:** Given that IBR-IRE is the professional accountancy organization for registered auditors and does not carry out audits itself, we are not in a position to respond to this 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.

**Response:**

In our opinion, the sole presence of component auditors as such or the entities being located in different jurisdictions does not automatically lead to the fact that a group should be considered as complex. We therefore believe that Option 2 would lead to a broader applicability of the ISA for LCE to group audits if they were to be included in the scope.

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:**

It is worth mentioning that the applicability of the ISA for LCE may depend upon the requirements put forward by the group auditor. When detailed accounting principles / detailed group internal control procedures are present and the group auditor is requiring in-depth auditing and reporting on such procedures, this could be a characteristic of complexity that the component auditor should take into account when assessing whether the component is a LCE or not.

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:**

Our preference would be to present all requirements in relation to group audits in a separate Part. We believe that such a separate Part would facilitate the user in finding all matters related to group audits in accordance with the ISA for LCE in a centralised manner.