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Tom Seidenstein

Chair

International Auditing and Assurance Standards Board

529 Fifth Avenue

New York

NY 10017

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Dear Mr. Seidenstein,

***Exposure Draft, Proposed ISA for LCE***

Institute of Chartered Accountants of the Maldives is pleased to respond to the International Auditing and Assurance Standards Board's ('the Board') Exposure Draft, proposed International Standards on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE). We welcome the Board's project to develop a standard tailored for the audits of less complex entities with the emergence of numerous less complex entities in the business arena and their reporting needs.

At a time where less complex entities play a vital role in our economy, we believe a proposal of a standard tailored for the audits of such entities will enable less complex and cost-effective auditing by the entities. Furthermore, we believe the Exposure Draft will ensure to provide a globally consistent approach at a time when a number of jurisdictional-specific less complex entities standards are emerging for auditing entities other than public interest entities.

However, we suggest that further improvements are necessary on the following significant issues.

- **Scope:** The proposed standard does not provide clear guidelines on criteria to be met for an entity to be classified as LCE. The IAASB has sought to define by adopting a highly principles-based approach in determining when the ISA for LCE may be used rather than defining a specific population, for example by use of quantitative measures based on revenue, assets, employee numbers. In seeking to describe qualitative characteristics, this results in a highly subjective determination at the firm and engagement level. Many of the individual characteristics, such as the complexity of the IT system, transactions or accounting estimates, may be subject to very different interpretations, both within a firm, across firms and across jurisdictions.
- **Single set of ISA with appropriate scalability:** As a fundamental principle, ISAs have been developed as a single, integrated, and scalable set of standards, which are to be adjusted and adapted on the type of entities (sizes and types). Based on the risks that are specific to the entity in the particular engagement circumstances, the application of ISAs on a consistent basis, drives audit quality and it is significant for the public interest. Therefore, it is critical that any proposed solution(s) should retain the fundamental principle of a single set of ISAs with a detailed framework but with appropriate scalability. Furthermore, the Audit report under LCE is similar to the audit report issued under full ISAs except for reference given to ISA for LCE. Therefore, in our view the audit report users and stakeholders may expect the same level of comprehensive work as part of planning, execution and completion of audit work by practitioners as under full ISAs before issuing such assurance reports, this could ultimately create expectations gaps.
- **Link to ISA:** The overall intended outcome is a standard better tailored to the typical nature and circumstances of a LCE. By using the objectives and requirements of the ISAs, however, the IAASB has restricted its ability to be innovative in its design of the standard. When practitioners are to apply ISA for LCE in the areas where there is less detail such as execution of professional skepticism, ethical requirements, pervasive principles, they may have to refer to the full ISAs even though the ISA for LCE has been issued as a standalone standard. If this is the case, the purpose of the proposed standard could not be fulfilled. Therefore, it is our view that proposed guidelines should have sufficient detail but with scalability options for LCE and CE. Therefore, the best possible action for the IAASB takes a combination of action: "Developing Guidance for Auditors of LCEs or Other Related Actions" and "Revising the ISAs", mainly focusing such revision on the ISAs that the public consider

difficult to apply for LCE. This approach would resolve the negative impact of the audit report users' perception on the differences of a regular audit and LCE audit reports as well as the practical difficulties in applying a set of standards with limited guidance. This also would allow it to continue with one set of auditing standards, with worldwide applicability.

- **Essential Explanatory Material:** We remain skeptical as to whether there is sufficient Essential Explanatory Material (EEM) within the standard. By choosing to base the requirements of the standard on the ISA requirements, we find difficulty in reconciling a view that application material deemed necessary for the appropriate application of requirements in the ISAs, is not necessary for the same requirements in the ISA for LCE. We agree that any separate standard must be capable of being applied without presuming existing ISA knowledge of the auditor. However, we are skeptical as to whether the standard contains sufficient EEM to achieve this objective. There appears to be an implicit assumption of existing ISA knowledge on the part of auditors in expectation of ability to effectively and consistently apply the requirements. Perceptions of length of the standard may have been unduly prioritised over effective understanding and application.
- **Level of assurance:** Practice in some jurisdictions is that different types of engagements, such as review engagements, or “review plus” engagements are used widely in obtaining assurance for smaller entities. The Board’s decision to pursue a reasonable assurance audit opinion is likely being influenced by the existence of legislation or regulation in some jurisdictions that require “audits” for all entities, and/or a perception that users of the financial statements want “an audit” and will not understand differential models of assurance. By its nature - specifically the fact that the ISA for LCE has fewer requirements than the ISAs - there is a risk that an audit conducted in accordance with the ISA for LCE is perceived as “ISA-light” and resulting in a lower level of assurance than an audit conducted in accordance with the full ISAs.
- **Title:** We believe that using “ISA” in its title may be confusing. The standard has been designed to be standalone, distinct from, and not reliant upon, the ISAs. Consequently, a title that avoids using the established term “ISA” would, in our view, better support this distinction. For example, the “International Standard for Less-Complex Entities Audits”.

- **Maintenance:** The proposed approach to maintenance appears sensible, enabling more timely action if and when warranted by the circumstances. The ability to update on a timely basis with changes to the ISAs may also be necessary if the ISA for LCEs is going to be allowed for use in audits of components of groups that are not deemed to be LCEs, including listed groups or groups with public interest characteristics. Sticking to a strict model of only updating on a set cycle, e.g., every three years, could be argued to preclude the use of the ISA for LCEs for any component audit work as the group audit, in its entirety, needs to be performed in accordance with the ISAs.
- **Group audit:** We believe that not all the group audits are complex, as there might be some group audits where the parent and subsidiaries do not have much complexities in their financial transactions and reporting. Therefore, we suggest to include within the scope of ISA for LCEs the group audits and, state in it that the group and component auditors shall decide, based on the principles provided in ISA for LCEs, on the most appropriate standard from amongst ISA for LCEs and ISAs for the audit of the group and subsidiaries.
- **Transition:** Special consideration is to be given for regulators or entities in regards to their possible requirements to re-audit previous years audit when an entity operation changes from a year to another, from a LCE to a non LCE entity. In addition, comprehensive review of other regulations that could affect LCE audits such as Quality Management or Ethics regulations, given that if a new framework is required or developed it should be in accordance with these other regulations.
- **Special purpose framework:** We are of the opinion that a separate part of the ISA 800 series should be included within the proposed Exposure Draft for LCEs. As it is considered as a standalone standard, special considerations audits of financial statements prepared in accordance with special purpose frameworks should be addressed in the standard.

We will be happy to discuss or provide further clarification on the matters set out in this letter. You may reach us via [info@camaldives.org](mailto:info@camaldives.org).

Yours sincerely,



Mr. Hussain Niyazy  
President