

Joint submission by Chartered Accountants Australia and New Zealand and The Association of Chartered Certified Accountants

31 January 2022

To: Mr Thomas R. Seidenstein
The Chairman
International Auditing and Assurance Standards Board
529 5th Avenue 6th Floor
New York 10017
United States of America

Submission via IAASB website

Submission on IAASB's Exposure Draft Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCEs)

This submission is made jointly by Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA) under our strategic alliance.

ACCA and CA ANZ created a strategic alliance in June 2016, forming one of the largest accounting alliances in the world. It represents 870,000 current and next generation accounting professionals across 179 countries and provides a full range of accounting qualifications to students and business. Together, ACCA and CA ANZ represent the voice of members and students, sharing a commitment to uphold the highest ethical, professional and technical standards. More information about ACCA and CA ANZ is contained in Appendix B.

Overall support for the ED and concept

We welcome the opportunity to comment on the IAASB's ED-ISA for LCEs (the ED). We commend the IAASB for responding to the responses to its earlier Discussion Paper on this issue and to the feedback that SMPs have been providing for a number of years that the ISAs have become increasingly complex and that scaling them to perform audits of less complex entities (LCEs) is challenging.

LCEs are an essential and very large sector of the global economy. In some jurisdictions they form the majority of the corporate populations and in others they are the vital not-for-profit, community and small business populations. They and their stakeholders look for the value that audits deliver. There are clear populations of these entities in Australia, New Zealand, the UK and in other jurisdictions globally, who are subject to audit and would benefit from the improvements and value that less complex, more efficient audits would bring.

A standard that presents consolidated requirements and simplified explanatory material allows auditors of LCEs to focus on doing high quality audits that are tightly focused on the circumstances of LCE entities instead of having to spend time scaling the full suite of ISAs which are designed with audits of the full range of complexity in mind.

A standalone standard that presents the essential elements of the ISA audit process in a digestible format that follows the flow of an audit, will also be a valuable tool for educators, professional bodies and audit firms in training future auditors and enabling them to understand the basic audit process before they build their knowledge of the complexities of the full suite of ISAs and audits of complex entities. It also allows those firms who may have already developed 'scaled-down' methodologies for audits of LCEs to validate and refine those methodologies even if they do not choose to adopt this standard.

We support the development of the ISA for LCEs to provide a framework for a consistent, efficient, high-quality audit that will still provide reasonable assurance. We believe it will have a positive impact on audit quality and the efficiency of the audit process for auditors, particularly SMPs when performing audits of LCEs. The existence of a global standard for LCE audits versus the development of solutions in individual jurisdictions is important to support audit quality internationally.

We also believe that the standard could also help address the issue of the attractiveness of the audit profession to new talent, to a degree. As noted by our stakeholders, there is a serious shortfall of audit professionals around the world. This was noted for Canada, the United States, the UK, Australia, New Zealand, Singapore, Malaysia, and other parts of the world. We therefore believe that having a standard that provides assurance in a more efficient manner is very important. This will also allow firms that currently undertake review engagements to potentially move up to audits but also to keep those engagement they currently have.

While we have heard some feedback that perhaps the audit for an LCE should be a different product, that may diverge from the ISAs and have a further reduced work effort, we believe that the timeframe for developing such a product would be likely to be much longer, and could also deliver a product which could be seen as inferior in quality to an audit supported by the full suite of ISAs. We therefore consider that the approach taken to develop the proposed ISA for LCE is a pragmatic one and addresses the need to improve the efficiency of scaling an ISA audit for an LCE in a timely manner.

Overview of feedback and refinements

We have consulted with a wide range of stakeholders in the UK, Canada, Australia, New Zealand, Kenya, ASEAN and Europe. From their feedback, we have identified a number of areas where there is need for further refinement of the proposed standard to address areas that will present challenges to successful implementation. In addition, we believe that the successful implementation depends on strong communication, education and change management. The benefits that an ISA for LCEs standard would deliver are worthwhile and we encourage the board to continue with this project.

The following is a high-level overview of the feedback received on key aspects of the ED.

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- a) **Authority of the standard.** Stakeholders generally are satisfied with the qualitative characteristics, though consideration should be given to whether there are any additional characteristics that might be useful for auditors of public sector entities to consider. In relation to the specific prohibitions in the standards, there is general support for the exclusion of entities with public interest characteristics, but there was mixed feedback on whether all listed entities should be excluded. In some jurisdictions, some listed entities can be relatively simple and listing itself, does not necessarily increase the complexity of the audit. Nevertheless, we agree that on balance the exclusion of listed entities is in the public interest. The exclusion of all group audits is largely not supported by our stakeholders. Practitioners identified that there can be many non-complex groups and given that the recently approved ISA 600 (Revised) expands the definition of groups, excluding all groups would make the standard less attractive to use as many small practitioners would still need to operate two methodologies.
- b) **Structure of the standard.** Structuring the standard to follow the steps of an audit engagement improves the ease of use for practitioners and our stakeholders were very supportive of the structure. ISA for LCEs may be useful, outside of the performance of engagements, to help students and new entrants to the profession gain an understanding of the underlying process of an ISA audit in an easily understood format.

In relation to using ISA for LCEs, there are three main areas where we received feedback from stakeholders for the board to consider in relation to the structure.

- i. While stakeholders understand that the standard is not intended per se to reduce the work effort in performing an audit of an LCE, practitioners are keen for the standard to deliver efficiencies where possible. The board should consider if the requirements and documentation are as streamlined as possible. The areas commonly mentioned during our outreach were risk assessment and internal controls, particularly the desire for the standard to offer a more simplified approach for risk and internal controls once the practitioner determines that they will be adopting a substantive approach in addition to the current requirements for controls-based audits. This is also an area commonly raised in discussions about scalability of the full suite of ISAs. While practitioners accept that it is necessary to understand the entity and assess risks, they feel the requirements and documentation can still be onerous when a substantive approach will be taken.
- ii. Essential explanatory material (EEM). Some stakeholders would prefer that the explanatory material was provided separately to the standard as the current presentation may present challenges for practitioners in jurisdictions, such as Australia, where the standards are legislative instruments and have force of law. We recommend that the board consider the implications for these jurisdictions in finalising how the EEM is presented. There was some discussion about the appropriate amount of EEM to include and this is an area that will need to evolve once the standard is implemented by practitioners.

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iii. Inclusion of the 800 series. Most practitioners were in favour of the standard addressing special purpose financial statements and audits of elements of financial reports or single statements. Particularly in the Non for Profit (NFP) sector, LCEs may receive government funding that requires a grant acquittal audit or similar engagement or may prepare special purpose financial statements under their regulatory frameworks or governing documents. If practitioners have to perform special purpose engagements under the full ISAs, it is a disincentive to adopt ISA for LCEs as they will not necessarily wish to maintain two audit methodologies. We therefore find that it is in the public interest to provide the opportunity for NFP sector as a sector with significant importance, to also benefit from the use of ISA for LCE, with the inclusion of the ISA 800 series.

c) **Transition and the standalone nature of the standard.** We have heard mixed feedback regarding the strict standalone requirement of using the standard. The feedback from practitioners who audit LCEs is that encountering a single complex issue that was not identified during engagement acceptance and continuance or planning may not be as rare as contemplated in the ED. The prospect of having to go back and perform a full ISA audit if an isolated issue is discovered will be a deterrent to practitioners who may otherwise adopt the standard.

We also note that the ISA for LCE, similar to ISAs, is a principle-based standard and does not rely on detailed, prescriptive rules. This allows the LCE standard to be scalable and customised to be effective based on the facts and circumstances of the audit. However, we find that because the requirements are principle-based, it is inherently difficult for the practitioners (and regulators) to say definitively whether the LCE standard has been applied or the full ISA has been applied in at least some circumstances. As a result, the distinction can be quite arbitrary.

In addition, stakeholders have pointed out that, in jurisdictions where the full ISAs have been adopted, it is difficult for a practitioner to identify where they may be applying their experience of the full ISAs in performing an ISA for LCE which may result in an inadvertent “uplifting” of procedures. This would also potentially result in issues where regulators form different judgments about what procedures should have been applied.

We believe that a practical solution which would allow an auditor to ‘uplift’ procedures when an isolated ‘complex’ issue that isn’t specifically addressed by the standard would present an approach that is more easily able to be implemented. This could be accompanied by a requirement for the auditor to reassess the audit of the following engagement period and to determine whether it should continue to be performed under ISA for LCEs going forward. This approach would necessitate some guidance on the nature and extent of issues that would still trigger the need to revert to a full ISA audit.

d) **Perception and the risk of an expectation gap.** Some stakeholders have expressed concerns that ISA for LCEs has the potential to widen the expectation gap with users, if they

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perceive it to be a “lesser quality’ audit or reduced work effort with the risk of creating two tiers of auditors. This topic was raised in relation to a number of aspects, but mostly when it came to auditor reporting and transparency. While the majority of practitioners are supportive of the need for the auditor to communicate with those charged with governance that the engagement will be performed under ISA for LCEs, there were mixed views from our outreach on whether it is necessary for the auditor’s report to also reference the standalone nature of the standard. Those who are against it raised concerns with the expectation gap and a push from users to lower audit fees for ISA for LCEs engagements. They expressed the view that if the requirements in the ED are all from the ISAs, it is, in essence, still an ISA audit and therefore the audit report should reflect this. The counter argument is the need for transparency in communications from the auditor for the users of the financial statements.

We find the issue of perception to be the most challenging issue that the IAASB needs to address in order for the standard to be widely adopted. In our view, given that the ED-ISA for LCE has been developed using the requirements that exist in the full ISAs, using the same underlying principles and it provides reasonable assurance at the same quality as the full ISAs do, that it should be part of the suite of ISAs. We also support the view that audits conducted using this standard should reflect this by referring to the full ISAs rather than the standalone standard in the auditor’s report.

We believe that there is potential for user confusion and strongly encourage the board to include the need to educate users, preparers and regulators, and for local standard setters to do the same and to undertake activities to do this and to produce materials to support NSS in doing so too.

Our responses to the specific questions for comment raised in the ED follow in Appendix A. Should you have any queries about the matters in this submission, or wish to discuss them in further detail, please contact Melanie Scott, Senior Policy Advocate at CA ANZ via email; melanie.scott@charteredaccountantsanz.com and Antonis Diolas, Head of Audit and Assurance at ACCA via email: antonis.diolas@accaglobal.com.

Yours sincerely

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Appendix A

IAASB 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?

Overall, we support the development of a standalone standard for audits of LCEs.

A standard that presents consolidated requirements and simplified explanatory material allows auditors of LCEs to focus on doing high quality audits that are tightly focused on the needs of LCE entities instead of having to spend time scaling the full suite of ISAs which are designed with complex audits in mind.

A standalone standard that presents the essential elements of the ISA audit process in a digestible format that follows the flow of an audit, will also be a valuable tool for educators, professional bodies and audit firms in training future auditors and enabling them to understand the basic audit process before they build their knowledge of the complexities of the full suite of ISAs and audits of complex entities. It also allows those firms who may have already developed 'scaled-down' methodologies for audits of LCEs to validate and refine those methodologies even if they do not choose to adopt this standard.

We support the development of ISA for LCEs to provide a framework for a consistent, efficient, high-quality audit that still provides reasonable assurance. We believe it will have a positive impact on audit quality and the efficiency of the audit process for SMPs when performing audits of LCEs. The existence of a global standard for LCE audits versus the development of solutions in individual jurisdictions is important to support audit quality internationally.

We also believe that the standard could also help address the issue of the attractiveness of the audit profession to new talent, to a degree. As noted by our stakeholders, there is an extreme shortfall of audit professionals in Canada, the United States, the UK, and other parts of the world. We therefore believe that having a standard that provides assurance in a more efficient manner is very important. This will also allow firms that currently undertake review engagements to potentially move up to audits but also to keep those engagement they currently have.

While we have heard some feedback that perhaps the audit for an LCE should be a different product, that may diverge from the ISAs and have a further reduced work effort, we believe that developing such a product would likely to take a much longer time and of course would also deliver a product which could be seen as inferior in quality to that supported by the full suite of ISAs. We therefore, consider that the ISA for LCE presents a pragmatic approach to addressing the need to improve the efficiency of scaling an ISA audit for an LCE in a timely manner.

Overview of feedback and refinements

We have consulted with a wide range of stakeholders in ASEAN, Canada, UK, Europe, Australia and New Zealand. From their feedback, we have identified a number of areas where there is

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need for further refinement of the proposed standard to address areas that will present challenges to successful implementation. In addition, we believe that the successful implementation depends on strong communication, education and change management. The benefits that an ISA for LCEs standard would deliver are worthwhile and we encourage the board to continue with this project.

The following is a high-level overview of the feedback received on key aspects of the ED.

- a) **Authority of the standard.** Stakeholders generally are satisfied with the qualitative characteristics, though some suggested that perhaps consideration should be given to whether there are any additional characteristics that might be useful for auditors of public sector entities to consider. In relation to the specific prohibitions in the standards, there is general support for the exclusion of entities with public interest characteristics, however we heard mixed feedback on whether all listed entities should be excluded. In some jurisdictions, due to the nature of the local markets, some listed entities can be relatively simple and listing itself, does not necessarily increase the complexity of the audit. Nevertheless, we agree that on balance the exclusion of listed entities is in the public interest. The exclusion of all group audits is largely not supported by our stakeholders. Practitioners identified that there can be many non-complex groups as consolidation is not necessarily complex and that, particularly given that the recently approved ISA 600 (Revised) now expands the definition of groups, excluding all groups would make the standard less attractive to use as there would be too many circumstances where small practitioners would still have to use the full ISAs for some of their engagements.
- b) **Structure and flow of the standard.** Structuring the standard to follow the steps of an audit engagement improves the ease of use for practitioners and our stakeholders were very supportive of the structure. ISA for LCEs may be useful, outside of the performance of engagements, to help students and new entrants to the profession gain an understanding of the underlying process of an ISA audit in an easily understood format. Our stakeholders also highlighted that the current structure will be very helpful for training programs within their firms. Additionally, some noted that the flow of the standard, the colour coding and the italics used are very clear and that they will also be very effective in translating into visual impairment tools.

In relation to using ISA for LCEs, there are three main areas where we received feedback from stakeholders for the board to consider in relation to the structure.

- i. While stakeholders understand that the standard is not intended to necessarily reduce the work effort in performing an audit of an LCE, practitioners are keen for the standard to deliver efficiencies where possible. The board should consider if the requirements and documentation are as streamlined as possible. The areas commonly mentioned during our outreach were risk assessment and internal controls. Practitioners suggested that the board consider if there can be a further reduction of requirements to provide the most efficient solution for LCEs where the practitioner knows they will be using a substantive approach. This is an area commonly raised in discussions about scalability of the full suite of ISAs. While practitioners accept that it is necessary to understand the entity and assess risks, they feel the requirements and documentation can still be onerous when a

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substantive approach will be taken. We understand the challenge that the IAASB is facing here, since LCEs consist of a very large pool of entities ranging from very simple LCEs who may lack the resources to have robust controls where practitioners therefore need to take a substantive approach to larger entities that may have appropriate controls in place. The standard needs to be scalable for all situations. We therefore suggest making some of the requirements conditional depending on the circumstances in order to overcome the concerns raised above by our stakeholders.

- ii. Essential explanatory material (EEM). Some stakeholders would prefer that the explanatory material was provided separately to the standard as the current presentation may present challenges for practitioners in jurisdictions, such as Australia, where the standards are legislative instruments and have force of law. We recommend that the board consider the implications for these jurisdictions in finalising how the EEM is presented. There was some discussion about the appropriate amount of EEM to include and this is an area that will need to evolve once the standard is implemented by practitioners.
 - iii. Inclusion of the 800 series. Most practitioners were in favour of the standard addressing special purpose financial statements and audits of elements of financial reports or single statements. Particularly in the NFP sectors, less complex entities may receive government funding that requires a grant acquittal audit or similar engagement or may prepare special purpose financial statements under their regulatory frameworks or governing documents. If practitioners have to perform special purpose engagements under the full ISAs, it is a disincentive to adopt ISA for LCEs as they will not necessarily wish to maintain two audit methodologies.
- c) **Transition and the standalone nature of the standard.** We have heard mixed feedback regarding the strict standalone requirement of using the standard. The feedback from practitioners who audit LCEs is that encountering a single complex issue that was not identified during engagement acceptance and continuance or planning may not be as rare as contemplated in the ED. The prospect of having to go back and perform a full ISA audit if an isolated issue is discovered will be a deterrent to practitioners who may otherwise adopt the standard. An example frequently raised by our stakeholders is in respect of accounting estimates with many suggesting that the standard should provide some flexibility in this area as this will allow a significantly larger pool of entities to be scoped in the standard and in return making its adoption a lot more attractive for firms.

We also note that the ISA for LCE, similar to ISAs, is a principle-based standard and does not rely on detailed, prescriptive rules. This allows the LCE standard to be scalable and customised to be effective based on the facts and circumstances of the audit. However, we find that because the requirements are principle-based, it is inherently difficult for the practitioners (and regulators) to say definitively whether the LCE standard has been applied or the full ISA has been applied in at least some circumstances. As a result, the distinction can be quite arbitrary.

In addition, stakeholders have pointed out that, in jurisdictions where the practitioners are well versed in the full ISA suite, it is difficult for a practitioner to identify where they may

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be applying their experience of the full ISAs in performing an ISA for LCE which may result in an inadvertent “uplifting” of procedures. This would also potentially result in issues where regulators form different judgments about what procedures should have been applied.

While it may be that LCE audit specialisations develop and are addressed by the educational programs of professional bodies, initially, the majority of auditors using the standard will have a good knowledge of the full suite of ISAs. We believe that a practical solution which would allow an auditor to ‘uplift’ procedures when an isolated ‘complex’ issue that isn’t specifically addressed by the standard would present an approach that is more easily able to be implemented. This could be accompanied by a requirement for the auditor to reassess the audit of the following engagement period and to determine whether it should continue to be performed under ISA for LCEs going forward. This approach would necessitate some guidance on the nature and extent of issues that would still trigger the need to revert to a full ISA audit.

- d) **Perception and the risk of an expectation gap.** Some stakeholders have expressed concerns that ISA for LCEs has the potential to widen the expectation gap with users, if they perceive it to be a “lesser quality” audit or reduced work effort with the risk of creating two tiers of auditors. This topic was raised in relation to a number of aspects, but mostly when it came to auditor reporting and transparency. While the majority of practitioners are supportive of the need for the auditor to communicate with those charged with governance that the engagement will be performed under ISA for LCEs, there are mixed views on whether it is necessary for the auditor’s report to also reference the standalone nature of the standard. Those who are against it raised concerns with the expectation gap and a push from users to lower audit fees for ISA for LCEs engagements. They expressed the view that if the requirements in the ED are all from the ISAs, it is, in essence, still an ISA audit. The counter argument is the need for transparency in communications from the auditor for the users of the financial statements.

We find the issue of perception to be the most challenging issue that the IAASB needs to address in order for the standard to be widely adopted. In our view, given that the ED-ISA for LCE has been developed using the requirements that exist in the full ISAs, using the same underlying principles and it provides reasonable assurance at the same quality as the full ISAs do, that it should be part of the suite of ISAs. We also support the view that audits conducted using this standard should reflect this by referring to the full ISAs rather than the standalone standard in the auditor’s report.

We believe that there is potential for user confusion and strongly encourage the board to include the need to educate users, preparers and regulators, and for local standard setters to do the same and to undertake activities to do this and to produce materials to support NSS in doing so too.

(b) The title of the proposed standard.

While we are supportive of the title, some stakeholders have expressed concerns that ISA for LCEs has the potential to widen the expectation gap with users and others, if they perceive an ISA for LCEs audit to be a “lesser quality” audit or to require reduced work effort. We believe that there is potential for user confusion and strongly encourage the board to include the need to

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educate users, preparers and regulators, and for local standard setters to do the same and to undertake activities to do this and to produce materials to support NSS in doing so too.

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

No comments.

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?

Yes, we agree with the proposed conforming amendments to the IAASB Preface.

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?

We have heard mixed feedback on the qualitative characteristics and whether they may involve too much judgement. However, we recognise that it is difficult to develop bright lines that are suitable for all jurisdictions and overall, allowing the auditors to exercise professional judgement in relation to qualitative characteristics is a balanced approach. We encourage the board to consider if there are additional QCs that may be useful for auditors of public sector entities as the indicators of complexity may be different for those entities. While we believe the authority is implementable as written, we encourage the board to consider the impact of the exclusion of groups (see the below response to part 3(b)).

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

In our view, if the scope of the standard is too limited, it will discourage adoption by practitioners. From our outreach, the practitioners who see the most value in this standard are generally those who believe they will be able to audit all, or a large majority of, their clients under ISA for LCEs. The prospect of having to operate two methodologies is challenging for smaller firms. As discussed in our opening comments, the main concerns raised are with the blanket exclusion of groups and, to a lesser degree, listed entities. See also our response to question 4.

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

No.

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

Yes.

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

Yes, we find that the proposed role of legislative and regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions role is clear and appropriate. Such authorities have a key role to play, particularly, in considering whether further prohibitions should be set out a jurisdictional level making the adoption and use of the standard more attractive and relevant.

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

In relation to the specific prohibitions in the standards, there is general support for the exclusion of entities with public interest characteristics, however we heard mixed feedback on whether all listed entities should be excluded. In some jurisdictions, due to the nature of the local markets, some listed entities can be relatively simple and listing itself, does not necessarily increase the complexity of the audit. Nevertheless, we agree that on balance the exclusion of listed entities is in the public interest. The exclusion of all group audits is largely not supported by our stakeholders. Practitioners identified that there can be many non-complex groups as consolidation is not necessarily complex and that, particularly given that the recently approved ISA 600 (Revised) now expands the definition of groups, excluding all groups would make the standard less attractive to use as there would be too many circumstances where small practitioners would still have to use the full ISAs for some of their engagements. We believe that the board should include qualitative characteristics that would allow less complex groups to be audited under the standard.

(b) Qualitative characteristics.

We encourage the board to consider if there are additional QCs that may be useful for auditors of public sector entities as the indicators of complexity may be different for those entities. We suggest the board undertake further outreach with auditors general and other public sector stakeholders to determine if public sector entities may require an amended set of QC's.

As per our response to 4(a) we believe that the standard should be available to auditors of less complex groups and that the board should include qualitative characteristics that would allow less complex groups to be scoped in.

Some of our stakeholders raised concerns that the standard currently includes too many prohibitions which could lead to confusion when considering whether a company can be scoped in. An example raised is in the case of a farm with a number of owners within a family structure which could be scoped out because of ownership, regardless of the fact that the farm operations are not complex, making it confusing as to why complexity refers back to users. Using the same

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example, if a farm is on First Nation's reserved land, an indigenous community in Canada, that is likely to be excluded because of its public interest characteristics irrespective again, of whether the entity is a simple farm. We therefore recommend that the IAASB takes into consideration these concerns and explore whether the number of prohibitions can be reduced focusing on the substance of complexity.

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?

Yes, we find the guide to be helpful in understanding the Authority.

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

No.

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).

We are supportive of the standard being based on the requirements of the ISAs. We encourage the board to make sure that the documentation requirements are as efficient as possible. Unnecessary documentation is one of the areas often raised by auditors of LCEs as contributing to inefficiency in small audits.

The other area commonly identified in our outreach was in the risk assessment and assessment of internal controls. While stakeholders understand that the standard is not intended to necessarily reduce the work effort in performing an audit of an LCE, practitioners are keen for the standard to deliver efficiencies where possible. Practitioners suggested that the board consider if there can be a further reduction of requirements to provide the most efficient solution for LCEs where the practitioner knows they will be using a substantive approach. While practitioners accept that it is necessary to understand the entity and assess risks, they feel the requirements and documentation can still be onerous when a substantive approach will be taken.

We therefore suggest making some of the requirements conditional depending on the circumstances in order to overcome the concerns raised above by our stakeholders. See also our response to Question 9.

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

No specific comments.

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

We support ISA for LCEs requiring the use of professional skepticism and professional judgement and

(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.

We are supportive of keeping ISA for LCEs as streamlined as possible but also recognise that finding the right balance of application material is difficult. We believe that it is likely that the balance of EEM may need to be refined over time as practitioners implement the standard and encourage the board to determine their approach to further outreach and post implementation review of the standard and the EEM.

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

Some stakeholders would prefer that the explanatory material was provided separately to the standard as the current presentation may present challenges for practitioners in jurisdictions, such as Australia, where the standards are legislative instruments and have force of law. We recommend that the board consider the implications for these jurisdictions in finalising how the EEM is presented, including exploring technological solutions to presenting the material.

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).

Overall, the design and structure of the standard has been received favourably. Our stakeholders highlighted that the current structure follows the stages of an audit and that it is also very helpful for training programs within their firms.

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.

Part 2 – Audit Evidence and Documentation

In respect of documentation we received some differing views in regards to the general documentation requirements. Some stakeholders find that having a section that sets out general documentation requirements in addition to the specific documentation requirements in each section makes the standard repetitive and could create confusion. However, others suggested that this is particularly helpful as it provides some helpful information and works as an education tool for practitioners asking for additional documentation guidance. On balance, we find that the general documentation requirements are useful given that documentation is an area where practitioners often raise concerns and often ask for more guidance.

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Part 5 – Planning

We are overall supportive of this section of the standard; however, we suggest that materiality is an area where more guidance is needed in the standard. More specifically, the application material in ISA 320 provides useful information on materiality and audit risk and more detailed guidance on the benchmarks which are of particular importance for practitioners. While we understand that larger firms have developed their own methodologies based on ISA 320 and their practices, guidance in relation to materiality is of significant importance for SMPs.

Part 6 - Risk identification and assessment

While stakeholders understand that the standard is not intended to necessarily reduce the work effort in performing an audit of an LCE, practitioners are keen for the standard to deliver efficiencies where possible. The board should consider if the requirements and documentation are as streamlined as possible. The areas commonly mentioned during our outreach were risk assessment and internal controls. Practitioners suggested that the board consider if there can be a further reduction of requirements to provide the most efficient solution for LCEs where the practitioner knows they will be using a substantive approach. This is an area commonly raised in discussions about scalability of the full suite of ISAs. While practitioners accept that it is necessary to understand the entity and assess risks, they feel the requirements and documentation can still be onerous when a substantive approach will be taken.

We understand the challenge that the IAASB is facing here, since LCEs consists of a very large pool of entities ranging from very simple LCEs who may lack the resources to have robust controls where practitioners therefore need to take a substantive approach to larger entities that may have appropriate controls in place. The standard needs to be scalable for all situations. We therefore suggest making some of the requirements conditional depending on the circumstances in order to overcome the concerns raised above by our stakeholders. For example, paragraph 6.3.14 (building on ISA 315 (Revised)) requires the auditor to evaluate the design and the implementation of specific controls irrespective of whether the auditor plans to test the operating effectiveness of the identified controls. We understand that this assists the auditor's understanding of management's approach to addressing certain risks, and therefore provides a basis for the design and performance of further audit procedures responsive to these risks even when the auditor does not plan to test the operating effectiveness of identified controls i.e., when a full substantive approach is taken. The requirement currently suggests that inquiry alone is not sufficient and that more procedures should be performed in order to evaluate the design and implementation. We suggest that the requirement is made conditional, with inquiry alone being sufficient in cases where for example, a full substantive approach is taken.

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.

Subject to our comments in part (b), we agree with the approach taken with regard to auditor reporting requirements. We find that having the illustrative auditor's reports in an appendix would be more consistent with what we currently have in the ISA 700 series.

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(b) The approach to include a specified format and content of an unmodified auditor's report as a requirement?

It is unclear why there is a specified format for the report rather than guidance on what should be included as per ISA 700 when the audits are performed requirements for the ISAs. Most practitioners would prefer the approach to be equivalent to ISA 700.

While the majority of practitioners are supportive of the need for the auditor to communicate with those charged with governance that the engagement will be performed under ISA for LCEs, there are mixed views on whether it is necessary for the auditor's report to also reference the standalone standard. Those who are against it raised concerns with the expectation gap and a push from users to lower audit fees for ISA for LCEs engagements. They expressed the view that if the requirements in the ED are all from the ISAs, it is, in essence, still an ISA audit designed to give reasonable assurance. The counter argument is the need for transparency in communications from the auditor.

As noted in our general comments, we find the issue of perception to be the most challenging issue that the IAASB needs to address in order for the standard to be widely adopted. In our view, given that the ED-ISA for LCE has been developed using the requirements that exist in the full ISAs, using the same underlying principles and it provides reasonable assurance at the same quality as the full ISAs do, that it should be part of the suite of ISAs. We also support the view that audits conducted using this standard should reflect this by referring to the full ISAs rather than the standalone standard in the auditor's report.

(c) The approach to providing example auditor's reports in the Reporting Supplemental Guide.

We are supportive of including example auditor's reports as these will be beneficial to practitioners.

11. With regard to the Reporting Supplemental Guide:

(a) Is the support material helpful, and if not, why not?

Yes.

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

No other specific comments

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.

Please refer to our response to question 9.

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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?

Transition and the standalone nature of the standard. We are supportive of presenting ISA for LCEs in a separate standard. However, we have heard mixed feedback on the strict standalone requirement of using the standard. The feedback from practitioners who audit LCEs is that encountering a single complex issue that was not identified during engagement acceptance and continuance or planning may not be as rare as contemplated in the ED. The prospect of having to go back and perform a full ISA audit if an isolated issue is discovered will be a deterrent to practitioners who may otherwise adopt the standard. An example frequently raised by our stakeholders is in respect of accounting estimates with many suggesting that the standard should provide some flexibility in this area as this will allow a significantly larger pool of entities to be scoped in the standard and in return making its adoption a lot more attractive for firms.

In addition, stakeholders have pointed out that, in jurisdictions where the practitioners are well versed in the full ISA suite, it is difficult for a practitioner to identify where they may be applying their experience of the full ISAs in performing an ISA for LCE which may result in an inadvertent “uplifting” of procedures. This would also potentially result in issues where regulators form different judgments about what procedures should have been applied.

While it may be that LCE audit specialisations develop and are addressed by the educational programs of professional bodies, initially, the majority of auditors using the standard will have a good knowledge of the full suite of ISAs. We believe that a practical solution which would allow an auditor to ‘uplift’ procedures when an isolated ‘complex’ issue that isn’t specifically addressed by the standard would present an approach that is more easily able to be implemented. This could be accompanied by a requirement for the auditor to reassess the audit of the following engagement period and to determine whether it should continue to be performed under ISA for LCEs going forward. This approach would necessitate some guidance on the nature and extent of issues that would still trigger the need to revert to a full ISA audit.

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

This issue would need to be addressed by both a change in the requirements in relation to transitioning and support materials.

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

We have heard mixed views on the approach. Some practitioners feel a regular update cycle such as every three years may be easier to manage from a methodology perspective for practitioners who will largely perform ISA for LCE audits. Those who expressed a preference for ISA for LCEs to be maintained as the full suite of ISA is revised or added to, had concerns about the potential complications of having different requirements in operation in different methodologies for firms who may perform full ISA audits and ISA for LCE audits. We suggest

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the board consider an approach that provides some flexibility such as a regular three-year update cycle but provisions that allow an 'out of cycle' update if the board releases a major new standard or revision which they consider should be adopted by practitioners using ISAs for LCEs at the same time as those using the full ISA suite.

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

Yes.

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

In respect of the ISA-800 series, most of our stakeholders were in favour of the standard addressing special purpose financial statements and audits of elements of financial reports or single statements. Particularly in the NFP sectors, less complex entities may receive government funding that requires a grant acquittal audit or similar engagement or may prepare special purpose financial statements under their regulatory frameworks or governing documents. If practitioners have to perform special purpose engagements under the full ISAs, it is a disincentive to adopt ISA for LCEs as they will not necessarily wish to maintain two audit methodologies.

In our view, it does not make sense for a practitioner to be able to audit an LCE's general purpose financial report under ISA for LCEs but have to revert to a full ISA engagement for special purpose or other financial reporting engagements they may need. We therefore support that ISA for LCE should include a section that addresses the requirements of the ISA-800 series.

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.

Yes, the majority of our stakeholders in practice suggest that they will use the proposed standard in their jurisdiction. There is also a role for small practitioners and arguably for large practitioners to use ISAs for LCEs to further refine their current LCE methodologies for consistency should they choose to. However, we do note that in some jurisdictions the regulatory community does not support the standard, and this could be detrimental for the standard's adoption.

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

The proposed standard will be useful for small practitioners who choose to utilise it. We don't believe it should have a significant impact on the experience of users and other stakeholders, other than by a more consistent audit process. There is potential, however, for those users to inadvertently expect things from the standard that it is not intended to deliver (i.e., a different level of assurance or reduced audit fees). We strongly encourage the board to include the need to educate users, preparers and regulators, and for local standard setters to do the same and to undertake activities to do this and to produce materials to support NSS in doing so too.

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

If the scope of the standard is too limited, it will discourage adoption by practitioners. From our outreach, the practitioners who see the most value in this standard are generally those who believe they will be able to audit all, or a large majority of, their clients under ISA for LCEs. The prospect of having to operate two methodologies is challenging for smaller firms. As discussed in our opening comments, the main concerns raised are with the blanket exclusion of groups and, to a lesser degree, listed entities.

Further, the strict standalone nature and transition requirements may be difficult to operationalise as auditors experience in the full suite of ISAs will be relying on that knowledge in making their judgments in ISA for LCEs. We also find that a transition requirement that gives no leeway for some unexpected complexity to be addressed without significant rework will deter practitioners from adopting ISA for LCEs.

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?

No comments.

Section 4G - Approach to Consultation and Finalization

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

As some stakeholders have expressed concerns that ISA for LCEs has the potential to widen the expectation gap with users and others, if they perceive an ISA for LCEs audit to be a “lesser quality” audit or to require reduced work effort with the risk of creating two tiers of auditors.

As noted in our general comments, we find the issue of perception to be the most challenging issue that the IAASB needs to address in order for the standard to be widely adopted. In our view, given that the ED-ISA for LCE has been developed using the requirements that exist in the full ISAs, using the same underlying principles and it provides reasonable assurance at the same quality as the full ISAs do, that it should be part of the suite of ISAs. We also support the view that audits conducted using this standard should reflect this by referring to the full ISAs rather than the standalone standard in the auditor’s report.

We believe that there is potential for user confusion and strongly encourage the board to include the need to educate users, preparers and regulators, and for local standard setters to do the same and to undertake activities to do this and to produce materials to support NSS in doing so too.

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.

No comments.

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

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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.

Given the non-mandatory nature of the standard, this seems reasonable.

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.

A clear majority of our stakeholders support allowing less complex groups to be audited using ISA for LCE. The need to perform a consolidation is not, in itself, an indication of complexity, and there are very simple groups in existence.

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:

As noted in our general comments, given that the recently approved ISA 600 (Revised) expands the definition of groups, excluding all groups would make the standard less attractive to use as there would be too many circumstances where small practitioners would still have to use the full ISAs for some of their engagements.

(a) Would you use the standard if group audits are excluded? If not, why not?

Feedback from practitioners is that an exclusion of all groups would make the standard less attractive to adopt. There are many non-complex groups and the ability to only audit single entity financial statements under ISA for LCEs would limit its usefulness. SMPs who choose to use ISA for LCEs would be forced to also maintain a full ISA methodology for group audits. In these circumstances, many practitioners indicated they would be more likely to simply continue with existing methodologies rather than change to ISA for LCEs.

(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?

No comment.

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

No comment.

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

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This is the option favoured by most stakeholders. There was support for the incorporation of some bright lines into the proxy (such as, potentially, the exclusion of groups that require the use of component auditors or that operate in multiple jurisdictions).

(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.

Some stakeholders believe that qualitative characteristics may be too judgemental and lead to inconsistent application in practice. Some practitioners have 'field tested' the qualitative characteristics by applying it to their clients and found the proxy approach unworkable and led to inconsistent judgements. They suggested that it would not be possible to establish a threshold or a framework that would be prescriptive enough to achieve consistency in application. Whereas, via testing the qualitative characteristics approach with their existing clientele, they found that the resulting judgements were almost always consistent. Additionally, they noted that this approach would allow the standard to be concise and more accessible.

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?

Some of our stakeholders suggested a combination of the two options presented above. For example, use a proxy initially i.e. whether component auditors or operations in multiple jurisdictions are involved and then some judgemental evaluations such as the qualitative characteristics with the decision remaining in the auditor's judgement.

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.**

We have heard mixed feedback on the options. Some practitioners favour keeping the requirements separate so that if a practitioner is not performing an engagement involving a group, they do not have to look at that part of the standard. Other practitioners prefer incorporating the requirements in the relevant sections of the audit process to ensure they are not missed. Some suggested that the group requirements could be formatted differently in each section to make them clear and enable those not performing group audits to exclude them easily.

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Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents 131,673 financial professionals, supporting them to make a difference to the businesses, organisations and communities in which they work and live. Chartered Accountants are known as Difference Makers. The depth and breadth of their expertise helps them to see the big picture and chart the best course of action.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with mentored practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard setters on behalf of members and the profession to advocate boldly in the public good. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations.

We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 15 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.

We employ more than 500 talented people across Australia, New Zealand, Singapore, Malaysia, Hong Kong and the United Kingdom.



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About ACCA

ACCA is the Association of Chartered Certified Accountants. We're a thriving global community of 233,000 members and 536,000 future members based in 178 countries that upholds the highest professional and ethical values.

We believe that accountancy is a cornerstone profession of society that support both public and private sectors. That's why we're committed to the development of a strong global accountancy profession and the many benefits that this brings to society and individuals.

Since 1904 being a force for public good has been embedded in our purpose. And because we're a not-for-profit organisation, we build a sustainable global profession by re-investing our surplus to deliver member value and develop the profession for the next generation.

Through our world leading ACCA Qualification, we offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. And using our respected research, we lead the profession by answering today's questions preparing us for tomorrow.

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