



31 January 2022

International Auditing and Assurance Standards Board

Dear Sirs

COMMENTS ON PROPOSED INTERNATIONAL STANDARD ON AUDITING FOR AUDITS OF FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES

The Botswana Accountancy Oversight Authority (BAOA) values this opportunity to comment on the Exposure Draft, Proposed International standard on auditing for audits of financial statements of less complex entities (ISA FOR LCE)

The BAOA is responsible for providing oversight to accounting and auditing services and promotion of the standard, quality, and credibility of providing financial and non-financial information by entities, including Public Interest Entities (PIEs). This is attained through standard setting, financial reporting monitoring, audit practice reviews, corporate governance reviews, enforcement of compliance and oversight over Professional Accounting Organisations, and education and training of professional accountants in Botswana.

Please refer to the Appendix to this letter to see our comments on the questions raised in the Exposure Draft.

Kindly e-mail us at enkanga@baoa.org.bw or phone directly on +267 361 3014, if further clarity is required on any of our comments.

Yours faithfully

A handwritten signature in black ink, appearing to be 'Ephifania Nkanga', written over a white background.

Ephifania Nkanga
Acting Director, Technical

Appendix

Section 4A

Question 1: Views are sought on:

a) The standalone nature of the proposed standard, including detailing any areas of concerns in applying the proposed standard, or possible obstacles that may impair this approach?

- The standalone approach to the standard is the best because it ensures full compliance with the Standard applied. A standalone approach also helps to ensure that Auditors are thorough in choosing the correct standard to apply and will enable them to comply with it from the beginning to the end of the audit.
- In our view, areas of concern will likely be minimised or avoided as a standalone approach will minimise instances of different ISA references applied in a single audit client.
- As mentioned in the draft, choosing to either apply IFRS for SMEs or the full IFRS helps in consistent reporting and hence prevents instances that may cause biasness.

b) The title of the proposed standard

- The title of the proposed standard is relevant and specific. It will also help the readers and users of the financial statements to know that the standard is applicable to Less Complex Entities.

c) Any other matters related to ED-ISA for LCE as discussed in this section

- It could be included in the draft that, the ISA elected for application, should be applied consistently, unless the Entity ceases to be a Less Complex Entity.

Question 2

Do you agree with the proposed confirming amendments to the IAASB preface (see paragraphs 39-40) if not, why not, and what further changes may be needed?

- We agree with the proposed confirming amendments to the IAASB preface.

Section 4B

Question 3: Views are sought on the Authority (or scope) of ED-ISA for LCE:

a) Is the Authority as presented implementable? If not, why not?

- The Authority as presented is implementable as it is detailed enough.

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

- None noted.

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

- The specific areas in the Authority are clear.

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

- The scope of the proposed standard is clear, it is our belief that stakeholders will clearly understand the intended information.

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

- The documentation is clear, these are bodies that the professions interact with regularly. These are appropriate as they have more in sight on the different entities in their jurisdictions and as such, would have a more relevant and informative approach to Entities classified as less complex.

Question 4: Do you agree with the proposed limitations relating to the use of ED - ISA for LCE? If not, why and what changes (clarifications, additions or other amendments) need to be made? Please distinguish your response between the:

a) Specific prohibitions; and

- Agreed, no suggested changes.

b) Qualitative characteristics

- The Authority could give examples of applicable qualitative characteristics to enhance the definition of 'qualitative'.

Question 5: Regarding the Authority Supplemental Guide:

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

- The guide is very helpful.

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

- No other matters to be included in the guide have been identified.

Question 6

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

- No other matters noted.

Section 4C

Question 7: Views are sought on the key principles used in developing ED-ISA for LCE as set out in this Section 4C. Please structure your response as follows:

a) The approach to how the ISA requirements has been incorporated in the proposed standard (see paragraphs 74-77).

- It is appropriate for IAASB to use the requirements in the ISAs as a foundation for the requirements within ED-ISA for LCE as the new requirements should be aligned to the full ISAs and core requirements of the standard will be part of the requirements. Any ISA audit procedures that are not relevant to an LCE should be excluded.

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

- We are in agreement with the approach to the objectives to align the equivalent ISA objectives with some objectives more broadly stated than would be found in the ISAs for further clarity.

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

- We agree with the concept of professional skepticism, risk-based approach and ethical requirements to align in the same way as it would in an ISA audit.

a) The approach to EEM (see paragraphs 85–91) including:

- i. The content of the EEM, including whether it serves the purpose for which it is intended.**
 - ii. The sufficiency of EEM.**
 - iii. The way the EEM has been presented within the proposed standard.**
- The use of essential explanatory material (EEM) will be vital if it will be deemed to provide explanation and guidance on how to apply a requirement and for a proper understanding of the requirements by auditors.
 - The EEM will be sufficient and targeted at a conceptual and contextual level rather than providing more detail which is in the ISAs.

Section 4D

Question 8

Please provide your views on the overall design and structure of ED-ISA for LCE, including where relevant, the application of the drafting principles (paragraph 98-101)

- The design of the ED-ISA for LCE makes the standard easy to understand and apply especially with tailoring the standard to the nature and circumstances of the entity and the audit engagement which will be more effective and efficient.
- The layout of avoiding bullet list wherever possible is also a good idea as the standard might be taken as a checklist instead.

Section 4E

Question 9

Please provide your views on the content of each of Parts 1 through 8 of ED-ISA for LCE, including the completeness of each part. In responding to this question, please distinguish your comments by using a subheading for each of the Parts of the proposed standard.

Part 1: Fundamental Concepts, General Principles and Overarching Requirements

- We propose that this part should include the requirement for competence and capabilities check for the audit team.

Part 2: Audit Evidence and Documentation

- Part 2 looks complete as it has been accurately aligned to ISA 230, which will help in managing the quality of documentation across the audit file.

Part 3: Engagement Quality Management

- Part 3 looks complete and relevant.

Part 4: Acceptance or Continuance of an Audit Engagement and Initial Audit Engagements

- This part looks complete and relevant.

Part 5: Planning

- This part looks complete and relevant as it did not lose context from the ISAs.

Part 6: Risk Identification and Assessment

- It has retained the core requirements of ISA 315 (Revised 2019), as such making it is complete and relevant.

Part 7: Responding to Assessed Risks of Material

- It looks complete and relevant.

Part 8: Concluding

- It looks complete and relevant.

Question 10

For Part 9, do you agree with the approach taken in ED-ISA for LCE with regard to auditor reporting requirements, including:

- a) The presentation, content and completeness of Part 9.**
- b) The approach to include a specified format and content of an unmodified auditor's report as a requirement?**
- c) The approach to providing example auditor's reports in the Reporting Supplemental Guide.**

- We agree with the approach taken in ED-ISA for LCE regarding the reporting requirements.

Question 11

With regard to the Reporting Supplemental Guide:

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

- The support material is helpful, and no other matters may be included in relation to reporting.

Question 12

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

- In our view, Parts 1-9 has captured all the core requirements from the ISAs hence we have no suggested area of improvements.

Section 4F – Other Matters

Question 13: Please provide your views on transitioning:

- a) Are there any aspects of the proposed standard, further to what has been described above, that may create challenges for transitioning to the ISAs?**
- b) What support materials would assist in addressing these challenges?**

- The assessment of the criteria in deciding whether the ISA for LCEs can be applied may create challenges, as such as more comprehensive guidelines may be availed to assist in this regard.

Question 14

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

- We agree with the proposed approach.

Question 15

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

- Early adoption may be allowed because it will be coming as a quality improvement and mostly also resources saving.

Question 16

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

- ISA 800 does not override the requirements of the other ISAs. The standard still refers to various ISAs such as ISA 200, 315 and 700. These are the standards which were shown to have been trimmed with the ISAs for LCE. It would therefore make sense to have a separate ISA-800 be included within the exposure draft so it takes care of all the changes brought by the ISA for LCE.

Question 17: In your view, would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion and for which the proposed standard has been developed? If not, why not. Please structure your comments to this question as follows:

a) Whether the proposed standard can, and will, be used in your jurisdiction.

- The proposed standard can be used in our jurisdiction.

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

- The proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.

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

- The assessment of the criteria in deciding whether the ISA for LCEs can be applied may create challenges, as such as more comprehensive guidelines may be availed to assist in this regard.

Question 18

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

- No other matters.

Section 4G

Request for Comments – Specific Question

Question 19

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

- In our view, no further guidance is needed.

Request for Comments – General Questions

In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:

Question 20

Translations—recognizing that many respondents may intend to translate the final ISA for LCE in their own environments, the IAASB welcomes comment on potential translation issues noted in reviewing ED-ISA for LCE.

- We do not intend to translate the ISA for LCE to any other language.

Question 21

Effective Date—Recognizing ISA for LCE is a new standard and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning at least 18 months after the approval of a final standard. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA for LCE.

- We propose effective for the standard to be for financial reporting periods beginning at least 24 months after the approval of a final standard. This period would give stakeholders adequate time to transition to the new ISA for LCE and its effective implementation.

Section 5 -Group Audits

Question 22:

The IAASB is looking for views on whether group audits should be excluded from (or included in) the scope of ED-ISA for LCE? Please provide reasons for your answer.

- Group Audits should be included in the scope of ED-ISA for LCE provided they meet the definition/criteria for LCE. This will allow Auditors to use the standard holistically, without having to refer to ISAs for Group Audits. It will also allow its use for less complex groups all encompassed in one standard. The purpose of the ED-ISA for LCE is to make auditing easy with less work compared to the ISAs, so all areas of auditing should be covered including the area of Group audits. However, in situations where a Group (Holding Company) does not meet the definition/criteria for LCE, all entities in the Group should use ISAs instead.

Question 23:

Respondents in public practice are asked to share information about the impact of excluding group audits from the scope of ED-ISA for LCE on the use of the proposed standard.

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

- The standard would be used only on entities that are not affected by the Group (Holding Company) being scoped out of the definition/criteria of LCE.

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?

- N/A - BAOA does not conduct audits.

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

- N/A - BAOA does not conduct audits.

Question 24: If group audits are to be included in the scope of ED-ISA for LCE, 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.

- Option 2: Qualitative characteristics are used to determine whether the proposed standard is appropriate to use for a group audit.
 - This option would allow the firm or auditor to consider a range of factors to determine whether a group would meet the complexity threshold for the purpose of using ED-ISA for LCE. And as the complexity of the LCE change, the factors could be easily expanded or amended as opposed when quantitative characteristics are used as this may result in the LCE not meeting the quantitative thresholds.
 - Even though this option, would involve significant judgment about the complexity of the group and the determination of the appropriateness of using ED-ISA for LCE, this may not entirely be an adverse characteristic, but may result in the auditor/firm understanding relevant information about the Entity, that would have otherwise been excluded when the quantitative characteristics were used. For example, the qualitative risks of the (group) entity, and this could improve the risk assessment and ultimately the quality of the audit for group audits.

Question 25:

Are there other ways that group audits could be incorporated into the scope of the proposed standard that is not reflected in the alternatives described above? For example, are there proxies for complexity other than what is presented in paragraph 169 that the IAASB should consider?

- The IAASB could consider the size of the subsidiaries.

Question 26:

If group audits are included in ED-ISA for LCE, how should the relevant requirements be presented within the proposed standard (please provide reasons for your preferred option):

- Option (a) - They should be shown in a separate part, rather than incorporated in different sections. This will ensure that there are no steps missed. This will also give a true picture of what audit work needs to be done in group audits. Also considering that groups audits are not common in less complex entities.