

**January 31,2022**

**Mr. Tom Seidenstein Chair,**

**IAASB 529 Fifth Avenue New York, NY 10017**

**Comments on the IAASB Exposure Draft, Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ED-ISA for LCE)**

Dear Mr. Chairman,

The Association of Professional Organizations of Accountants and Auditors of the CIS countries (*Eurasian Group of Accountants and Auditors* -the formal title of the group) is pleased to provide comments on the Exposure Draft issued by the IAASB - Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities.

The Association of Professional Organizations of Accountants and Auditors of the CIS countries (Eurasian Group of Accountants and Auditors --the formal title of the group) is pleased to provide comments on the Exposure Draft issued by the IAASB - Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities.

It should be noted that the majority of our members are small practicing companies, including a significant number of individual entrepreneurs. Thus, most of our members are themselves representatives of SMEs and/or provide SMEs with a range of professional services such as auditing, review engagements, accounting, tax and business consulting for SMEs.

Therefore, we are well aware of the difficulties and challenges that small audit firms face when auditing small business financial statements based on the application of ISA.

Despite significant efforts by the IAASB and IFAC in recent years, concerns about the need to apply International Standards on Auditing (ISA) when performing engagements related to the audit of financial statements of small or less complex entities persisted.

We therefore welcome the IAASB's decision to prepare a stand-alone standard governing the audit of less complex entities and are pleased that, in the process of implementing the project, the IAASB working group organized a wide-ranging discussion of the project, and studied all the possible issues and challenges faced by auditors in jurisdictions where ISA are applied.

Small businesses are critical contributors to the global economy, and most audits in the world are related to audits of small businesses. It is therefore crucial that audits of these entities not only be of high quality but also provide value to clients and all stakeholders. The issue of audit quality in the Eurasian region (CIS countries) is even more significant because the thresholds for mandatory audits are not high, and audits of less complex entities (LCEs) are conducted by both large audit firms and small audit firms.

By participating in the consultation on the project, we proceed from the IAASB's assurance that the application of a stand-alone standard by small audit firms will make the audit most effective in circumstances where a complex audit is not required. In this case, the new standard must maintain the quality of the audit equivalent to the quality of the audit conducted using the ISAs.

The comments we provide in this letter are a product of many deliberations, reviews, and discussions among the members of the Expert Group on audit and other assurance international standards of the Eurasian Group of Accountants and Auditors. As consensus views, they do not necessarily reflect all the comments that may be provided by individual members on behalf of their respective jurisdictions or individual experts.

Our responses to the specific questions posed by the IAASB are set out in Appendix 1 of this letter.

Sincerely yours,

Tatyana Mikhailovich

*The Expert Group on audit and other assurance international standards of the Eurasian Group of Accountants and Auditors*

## APPENDIX I

### RESPONSE TO SPECIFIC QUESTIONS POSED BY THE IAASB

*Respondents are asked to comment on the clarity, understandability and practicality of application of ED-ISA for LCE. In this regard, comments will be most helpful if specific aspects of ED-ISA for LCE are identified and the reasons for any concern about clarity, understandability and practicality of application, along with suggestions for improvement, are included. Specific suggestions for any proposed changes to wording in ED-ISA for LCE are also welcome. Respondents are free to address only questions relevant to them, or all questions. When a respondent agrees with the proposals in ED-ISA for LCE, it will be helpful for the IAASB to be made aware of this view as support for the IAASB's proposals cannot always be inferred when not explicitly stated.*

**Please find below our comments on the requested selected questions.**

Question 1: Views are sought on:

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

***We support the decision to develop an independent (standalone) standard for auditing financial statements of less complex entities.***

- (b) The title of the proposed standard. Any other matters related to ED-ISA for LCE as discussed in this section (Section 4A).

***We consider the name of the standard and the introduction of the term "less complex entities" (abbreviated as "LCE") not entirely appropriate. However, the scope of the standard makes it clear which entities are referred to.***

- (c) 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.***

Question 3: Views are sought on the Authority (or scope) of ED-ISA for LCE (Part A of the proposed standard). In particular:

- (a) Is the Authority as presented implementable? If not, why not?
- (b) Are there specific areas within the Authority that are not clear?
- (c) Will the Authority, as set out, achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard?
- (d) Is the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions clear and appropriate?

***We understand the approach used by the IAASB to define the term "less complex entity." We consider the introduction of express prohibitions, qualitative characteristics that allow to assess the complexity of the entity, the right of regulatory authorities at the jurisdictional level to amend the list of entities given in paragraph A.7.(c), to be the right solution. In addition, proper application of the Scope is facilitated by the Authority Supplemental Guide.***

***The role assigned by ED to regulators at the jurisdictional level is appropriate. Regulators have the ability to limit the application of the standard at a specific jurisdiction level, to include additional types***

*of entities on list A7(c), or to establish specific quantitative thresholds, such as indicators of income, assets, and/or number of employees (A.7.(c)(v)).*

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;

*In general, we support the express prohibitions introduced by the standard, since entities with such characteristics should not be classified as LCEs. At the same time, we believe that additional clarifications on the issue of evaluating the complexity of nonprofit entities should be prepared for paragraph A5.*

- (b) Qualitative characteristics.

*It follows from paragraph A9 that the ED-ISA for LCE is not appropriate for auditing financial statements if the entity has a complex ownership or oversight structure. We believe additional clarification is needed to paragraph A9 to clarify where the complexity of ownership or oversight structure affects audit complexity.*

Question 10: For **Part 9**, do you agree with the approach taken in ED-ISA for LCE with regard to auditor reporting requirements, including:

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

***We agree with the approach of defining the format and content of the unmodified auditor's report as a mandatory requirement of the standard.***

***We support the need for the Reporting Supplementary Guide, which will provide examples of modified auditor opinions and examples of auditor reports containing a modified opinion.***

Question 11: With regard to the Reporting Supplemental Guide:

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

***We believe that additional supporting materials on the preparation of the auditor's report would be helpful. Consideration should be given to issuing a report in circumstances where an entity is audited in one period in accordance with ISA for LCE, and in the next period the same entity is audited in accordance with the full-scope ISAs.***

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?

***We believe that the IAASB should develop supplementary guidance on procedures for transitioning from the application of ISA for LCE to the application of the full-scope ISAs and clarify under what circumstances such a need arises.***

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

***We believe that it would be appropriate to include in the ED-ISA for LCE a separate part on the application of the ISA-800 series for LCE. We often conduct audits of special purpose financial statements of entities that can be classified as LCEs. Such a part must be developed and included in the ED, i.e. before the issuance of 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.
- (b) Whether 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).

***Overall, we believe that ISA for LCE will meet the needs of the select group of users and other stakeholders. This separate group of users includes owners of small and non-complex entities that are not required to conduct a statutory audit of financial statements. We believe this standard will be useful for small audit firms that find it overly complex to apply the requirements of the full-scope ISAs to audits of less complex entities.***

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.

***The proposed time frame of 18 months from the effective date is a standard one. A longer period may be needed, as many audit firms will apply ISA for LCE for auditing LCEs, and the full-scope ISAs for auditing more complex entities. Accordingly, quality management policies and procedures will need to be developed and implemented in connection with the introduction of ISQM 1.***

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 response.

***We do not believe that group audits should be excluded from the scope of the ED-ISA for LCE. There are groups that have a simple and transparent structure, simple business processes, simple accounting procedures. The existence of several simple components within a group located in the same jurisdiction should not result in the exclusion of a group audit.***

Question 24: If group audits are to be included in the scope of ED-ISA for LCE, the IAASB is looking for views about how should be done (please provide reasons for your preferred option):

- (a) The IAASB establishes a proxy(ies) for complexity for when the proposed standard may be used (Option 1 - see paragraph 169); or
- (b) ED-ISA for LCE sets out qualitative characteristics for complexity specific to groups (Option 2 - see paragraph 176), to help users of the proposed standard to determine themselves whether a group would meet the complexity threshold.

***We believe that it would be more appropriate to define qualitative characteristics to evaluate the complexity of the group.***

Question 26: If group audits are included in ED-ISA for LCE, how should the relevant requirements be presented within the proposed standard (please provide reasons for your preferred option):

- (a) Presenting all requirements pertaining to group audits in a separate Part; or
- (b) Presenting the requirements pertaining to group audits within each relevant Part.

***The introduction of a separate part for all requirements related to group audits is the right decision to make in order to maintain the logic of the standard. This will be convenient for those auditors who do not conduct group audits.***

***Such a part must be developed and included in the ED, i.e. before the issuance of the ISA for LCE.***