

## OPTIONAL RESPONSE TEMPLATE: PROPOSED ISA FOR LCE

### Guide for Respondents

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

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

<b>Name of Respondent:</b>	<u>Duncan &amp; Toplis Limited</u>
<b>Organization (<i>where relevant</i>):</b>	<u>Duncan &amp; Toplis Limited</u>
<b>Country/Region/Jurisdiction:</b>	<u>United Kingdom</u>

## General Comments on Proposed ISA for LCE

**Response:** We believe that the successful drafting and implementation of a universal auditing standard for less complex entities, that achieves the aims of maintaining high auditing standards, whilst simultaneously reducing the burden on firms created by the extant ISAs is an extremely difficult task.

We fully support the project and believe that it is essential to ensure that local jurisdictions do not go out on a limb and create their own standard(s), potentially creating significant differences between different locales.

However, the project must ensure that a less complex entity is easily identifiable and indeed that the resulting audit work is targeted and reduced the burden on the audit team.

The first draft of the standard must be as close to achieving its goals as possible, although clearly, like for the existing ISAs there will be future iterations.

## Specific Questions

### *Section 4A – Overarching Positioning of ED-ISA for LCE*

1. Views are sought on:

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

**Response:** We are concerned that an entity displaying a stand-alone area that is not considered to be 'less complex' would have to resort to performing a 'full' ISA audit, rather than being able to just refer back to one ISA but being able to continue to use the LCE standard for the rest of the file. We do not believe that 1 'more complex' are is indicative of the entire entity not being 'less complex'.

- (b) The title of the proposed standard.

**Response:** We have no issues regarding the proposed title of the standard. It is clear and does not mislead the users as to its purpose.

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

**Response:** No further 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?

**Response:** We have no comments to make on this area.

### *Section 4B – Authority of the Standard*

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

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

**Response:** We strongly believe that a blanket prohibition on groups not being able to adopt the standard will limit the usefulness of the standard. Many groups are less complex – for example a simple 2 entity group, holding company and subsidiary (assuming this kind of entity is covered by the definition) is not inherently complex due to its legal structure.

We also believe that the ability to use the standard is too subjective. It is understandable why, but this could lead to difficulties of local competent authorities not being able to enforce the reasonable use of the full ISAs, outside of the prohibited list. In turn, this could lead to significant divergence from country to country, avoidance of which was one of the main reasons for creation of the standard in the first place.

So, to conclude, although the structure of the hierarchy of prohibitions makes sense, whether having so much potential divergence available may lead to a less effective standard, internationally. We do not believe that in its exact current state that the Authority presented is implementable.

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

**Response:** Please see (a), the subjective nature of qualitative characteristics may lead to international divergence.

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

**Response:** We believe that the authority is clear, but perhaps needs to include less subjective areas. The balance between giving the local jurisdictions power to set their own authority characteristics and ensuring a comparable use of the standard across ISA using jurisdictions will not be an easy task.

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

**Response:** Yes, but how they then interpret it and introduce at a local jurisdiction level will not be straightforward.

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

**Response:** Yes, but again, the standard must encourage comparable implementation across the globe, or one of the main motivating factors for introducing the standard, international consistency, may well be lost.

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

(a) Specific prohibitions; and

(b) Qualitative characteristics.

If you provide comments in relation to the specific prohibitions or qualitative characteristics, it will be helpful to clearly indicate the specific item(s) which your comments relate to and, in the case of additions (completeness), be specific about the item(s) that you believe should be added and your reasons.

**Response:** We are strongly opposed to the blanket prohibition on group companies. We believe some groups are less complex. No other comments on this area.

5. Regarding the Authority Supplemental Guide:

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

**Response:** Yes, it helps to more clearly explain the Authority.

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

**Response:** We have no additional suggestions.

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

**Response:** We have no further comments on this area.

#### *Section 4C – Key Principles Used in Developing ED-ISA for LCE*

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

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

**Response:** We believe that the key principles used will assist in the use of the standard, will create consistency and do help to provide a less complex solution to the audit process, compared to the use of the full ISAs.

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

**Response:** We have no issue with the approach to setting objectives to each part of the standard.

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

**Response:** We believe that the three areas noted above are fundamental to the audit process, however complex an entity may be, and therefore agree that the three areas must be retained in the LCE-ISA. Audit cannot be a prescriptive exercise. There are too many differing scenarios an entity can exhibit – therefore the skill of the auditor, the fundamental ability to give an opinion on financial statements is underpinned by the ability to exhibit the scepticism, judgement, to follow the ethical standards and to ensure that the audit firm operates under a system of quality management.

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

**Response:** We agree that a standard designed for less complex entities, should indeed, itself, be less complex. Reducing the advisory material provided by the standard and replacing with high-level considerations is a positive step. Often firms and authors or audit methodology take advisory material to be requirements, in turn this leads to a complex approach. As the aim is to ensure a less complex approach is taken to the audit of LCE, the lower the amount of application material (or equivalent, whilst still providing some high-level guidance, the better.

#### *Section 4D – Overall Design and Structure of ED-ISA for LCE*

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

**Response:** We believe that the design of the structure provides a clear path for the performance of the audit process, from planning to completion. We believe that this structure supports a simplified audit approach.

#### *Section 4E – Content of ED-ISA for LCE*

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

**Response:** Part 6 risk assessment. We believe that as part of the risk assessment exercise, there needs to be the requirement for the audit team to re-assess whether use of the LCE-ISA is still appropriate. If more complex risks are identified, then that would not be the case.

No other comments, that are not covered in other responses.

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

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

**Response:** We broadly agree with the approach outlined. However, we do not see why the auditor's responsibilities section cannot be referenced to a website, as is the case for the ISAs? Surely this would lead to a longer audit report that may be interpreted as more complex?

Additionally, why is the section relating to irregularities not included? Even for LCE, we believe that this is beneficial to the users of the financial statements?

11. With regard to the Reporting Supplemental Guide:

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

**Response:** Yes, we believe that this provides additional guidance as needed.

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

**Response:** We have no further comment.

12. Are there any areas within Parts 1–9 of the proposed standard where, in your view, the standard can be improved? If so, provide your reasons and describe any such improvements. It will be helpful if you clearly indicate the specific Part(s) which your comments relate to.

**Response:** We do not think that the specific exclusion of the use of type 1 or 2 reports for the use of service organisations is reasonable. This would imply that any entity that has a defined benefit pension scheme, for example, would instantly be complex. In turn it implies that any audit requiring an auditor's expert if complex. We do not feel that this is the case. For example, an academy school in the UK, especially a smaller trust, would be considered complex simply because they had a local authority pension scheme liability.

#### *Section 4F – Other Matters*

13. Please provide your views on transitioning:

- (a) Are there any aspects of the proposed standard, further to what has been described above, that may create challenges for transitioning to the ISAs?

**Response:** We acknowledge that the requirement to switch to the ISAs from LCE-ISA is one of the greatest challenges faced in the drafting of the LCE-ISA. Given the principles-based nature of ISAs it is not possible to have a series of absolute rules determining when the LCE-ISA can be used, such rules / guidance will have to ultimately be provided at a local level (as per the authority). Simply put, if there is deemed to be the requirement of a move to the ISAs, then each aspect of the previous year file under LCE-ISA would need to be revisited to ensure compliance with the ISAs, this would be the major challenge. It is important, as noted that clear guidance is included, at the local level, to ensure that the need for the transition is as rare as possible. We believe that for single aspects of complexity, for example a single complex estimate, the requirements of the applicable ISA should be allowed to be used, rather than a full transfer to purely using the full set of ISAs.

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

**Response:** As many examples as possible and a clear mapping from the LCE-ISA to the ISAs. It is envisaged that this would need to be provided at a local level.

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

**Response:** Yes, we see no issues with this. As ISAs are revised, it would be obvious to look at how any suggestions revisions are also made to the LCE-ISA. Both the ISAs and LCE-ISA need to always be based upon the same principles.

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

**Response:** Yes, we see no issue with early adoption, in much the same way as is the case for the ISAs.

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

**Response:** Not at this stage, at least. We agree that the initial focus must be on general purpose financial statements. There may be scope in the future for this, but we feel that this may lead to further confusion as to which standard or set of standards to use for specialised situations.

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

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

**Response:** We do not see any fundamental reasons why the LCE-SA cannot be adopted into our jurisdiction. However, any introduction would need to be done with clear instructions regarding the 'authority' detailing which entities can adopt the standard. There also would need to be a reasonable approach to disagreements over the ability to use the LCE-Isa for a given entity, given that there will be some uncertainty regarding certain entities. Use of the standard would need to be promoted for relevant entities.

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

**Response:** Overall, yes, but we have highlighted some areas where we feel (such as group audits) where we feel more consideration is needed.

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

**Response:** We believe that we have covered this question elsewhere in the response.

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

**Response:** The key to success is to produce a standard that will provide global consistency, whilst allowing for local adjustments where required.

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

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

**Response:** As many workable examples as possible – this would have to be done both at the international level and local jurisdiction level.

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

**Response:** We have no comment on this.

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

**Response:** We have no objection with this proposal.

#### *Section 5 – Group Audits*

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

**Response:** As noted above, group should not automatically be prohibited from inclusion. Some groups are not complex.

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

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

**Response:** Probably, but on significantly less audits.

- (b) Approximately what % of the audits within your firm or practice would be group audits that would likely be able to use ED-ISA for LCE (i.e., because it is likely that such group audits

could be considered less complex entities for the purpose of the proposed standard) except for the specific exclusion?

**Response:** We could not give an accurate answer to this without detailed research. However, as a broad response, we believe that we audit are not made complex by the fact that they are a group.

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

**Response:** Below are examples of group specific matters that we do not believe make the group complex, simply because it is a group – there may well be other factors present that do make the group complex.

- We are the sole auditor, no component auditors.
- There is a simple group structure.
- All entities are based in one jurisdiction.

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

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

**Response:** We would lean towards option 2, although with some clear exemptions from being able to be considered less complex. The reason being that professional judgement must be respected and that very few areas of audit lend themselves well to prescriptive rules given the wide-range of possibilities in practice.

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

**Response:** We have no further comment in this area.

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

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

**Response:** We believe to focus the user of the standard it would be preferable to present the requirements in a stand-alone section.