

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.
- 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

Name of Respondent:	<u>The Malta Institute of Accountants</u>
Organization (<i>where relevant</i>):	<u>The Malta Institute of Accountants</u>
Country/Region/Jurisdiction:	<u>Malta</u>

General Comments on Proposed ISA for LCE

Our views are based on discussions held between auditors in practice at the Malta Institute of Accountants ("the Institute" or "MIA"), represented through the MIA Audit and Assurance Committee.

In general, we support the Board's objective of coming up with a specific standard for less complex entities (LCEs) that addresses less complex entities. However, we strongly believe that it should try to address scalability more effectively than it currently does. The requirements coming out of the proposed Standard broadly mirror the requirements of existing ISAs and, in our view, fail to achieve the expectations of users and stakeholders. More detailed explanations in this regard are given below.

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: In principle, we agree with the standalone nature of the proposed standard and with the Board's aim in this regard. However, we do have a number of concerns as to whether this Standard will work for a number of reasons including the following:

- The benefits of adopting ISA for LCE versus the current application, is not as evident.
- Keeping fully aligned with the ISAs means that the proposed standard does not deal effectively with the "pain points" around, for example, the required understanding of controls, estimates and documentation. We do not believe it will achieve the efficiency that many are seeking, and could be possible if the Standard was less wedded to mirroring the ISA requirements.
- The above concerns also jeopardise the goal of achieving better harmonisation across the different jurisdictions as different jurisdictions will continue working on their own solution(s).
- There is concern that if trying to keep aligned with the ISAs, changing the wording of the requirements introduces ambiguity about whether the intent is the same or not. In the current environment, opening the door to different interpretations is not in the public interest and increases the expectation gap.
- We feel that there is not enough clarity on how the Standard will be adopted and how it will impact procedures when compared to current ISAs. This may lead to more confusion for practitioners.

On the other hand, the Institute looked forward to seeing more of the following:

- Simplification of procedures with the aim of achieving a more efficient audit process. Currently the requirements are equivalent to the requirements in the current ISAs;
- Less complex processes including less rigid documentation requirements;
- More guidance and direction on the application of the standard to a simpler context, for example having more tailored examples;

- More focus on simplifying work/documentation of controls in an environment that lacks formalised/well documented controls and recognition that in these circumstances the audit approach tends to be more substantive-based. Instead, we are faced with more requirements in this respect with the revision of ISA315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, and
- Acknowledgement of certain minimum requirements.

(b) The title of the proposed standard.

Response: No further comments.

(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: No further comments.

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: Please refer to below.

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

Response: As already mentioned above, some unintended consequences which could arise include:

- More confusion and hence more ambiguity, due to lack of detailed examples and clarity as to how the ISA for LCE is to be adopted and how it will impact procedures when compared to procedures under ISAs.
- There is concern that if trying to keep aligned with the ISAs, changing the wording of the requirements introduces ambiguity about whether the intent is the same or not. In the current environment, opening the door to different interpretations is not in the public interest and increases the expectation gap.
- Significant judgement will rest with firms and engagement teams in interpreting whether entities fall within such categories. The potential for inconsistency in judgement will be significant.

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

Clarity is being sought with respect to the following:

- the definition of 'Less Complex Entities'. The qualitative characteristics are based on when an entity is not considered not to be a less complex entity on the basis of complexity rather on what is a less complex entity. In our view, defining what is a less complex entity is critical. We feel that there is ambiguity in this regard. The fact that the Standard does not try to narrow down which entities are captured (rather than what is not captured) may actually result in 'large' private entities being

captured. Having such a broad scope makes it more difficult to simplify certain aspects given the varying nature of the entities that could otherwise be eligible. If the entities that are captured had to be narrowed further, it may be easier to simplify certain processes and procedures within the proposed Standard.

- The statement 'An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public;'. Does this cover all types of collective investment schemes or those which have more of a public interest e.g. retail schemes?

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

Response: As discussed above, we feel that there is too much ambiguity that could therefore jeopardise the intended objective.

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

Response: No further comments.

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 of the opinion that group audits should not be excluded from ISA of LCE if the consolidation is of a relatively simple nature (e.g. does not involve other auditors).

5. Regarding the Authority Supplemental Guide:

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

Response: Please refer to above comments

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

Response: Please refer to above comments

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: Please refer to above comments

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: As already mentioned above:

- Keeping fully aligned with the ISAs means that the proposed standard does not deal effectively with the "pain points" around, for example, the required understanding of controls, estimates, documentation. We do not believe it will achieve the efficiency that many are seeking, and could be possible if the Standard was less wedded to mirroring the ISA requirements. If complying with this Standard results in the same audit, what is actually to be achieved by this Standard is questionable. The Standard does not seek to come up with new solutions but the requirements seem to be a mirror image of the other ISAs. We believe that alternative solutions have not been sufficiently explored.
- There is concern that if trying to keep aligned with the ISAs, changing the wording of the requirements introduces ambiguity about whether the intent is the same or not. In the current environment, opening the door to different interpretations is not in the public interest and increases the expectation gap.

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

Response: Please refer to above comments.

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

Response: No further comments

- (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 remain sceptical as to whether there is sufficient EEM within the standard. As mentioned above, there is the risk that the lack of guidance will result in different interpretations.

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: No further comments.

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: No further comments to above.

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: No further comments.

11. With regard to the Reporting Supplemental Guide:

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

Response: No further comments.

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

Response: No further 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.

Response: Please refer to comments to Question 1 above.

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: One challenge for which clarity is being sought from our end is when transitioning from one year to another between one framework and another or even during the process of an audit (when one needs to switch again to the full ISAs). What are the implications on transitioning on prior opinions? We feel that there may be a challenge convincing users that the current year opinion issued versus that of the prior year give the same level of assurance.

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

Response: No further comments.

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

Response: Please refer to above comments for suggestions on how the Standard could be improved.

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

Response: No further comments.

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

Response: No further comments.

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 believe that this Standard will meet the needs of users and other stakeholders due to the concerns mentioned above. Given the size of our country and the 'small' nature of the vast majority of entities audited locally (all entities are audited irrespective of size), there was more expectation around this Standard and there is therefore significant doubt about its take-up.

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

Response: We do not believe that this Standard will meet the needs of users and other stakeholders due to the concerns mentioned above.

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

Response: Please refer to comments above.

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: Please refer to comments above.

Section 4G - Approach to Consultation and Finalization

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

Response: No further comments.

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: No further 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 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: No further comments.

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: We are of the opinion that group audits should not be excluded from ISA of LCE if the consolidation is of a relatively simple nature (e.g. does not involve other auditors). We do have a number of groups that satisfy this and/or simply consist of a holding company and one or a few subsidiaries.

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: No further comments. We do not think that this is a key criterion for using or otherwise this Standard.

(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: No further comments.

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

Response: One example is a group that does not involve other auditors.

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: In our opinion, Option \(a\) would be more ideal.](#)

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: No further comments.](#)

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: No further comments.](#)