



IKATAN AKUNTAN INDONESIA
(INSTITUTE OF INDONESIA CHARTERED ACCOUNTANTS)

Ref : 93/DE/IAI/I/2022

Jakarta, 24 January 2022

Tom Seidenstein

Chairman

International Auditing and Assurance Standards Board (IAASB)

Submitted via website

Dear Mr. Seidenstein,

Response to the IAASB's Consultation on the New Standard for Audits of Less Complex Entities

The Institute of Indonesia Chartered Accountants or *Ikatan Akuntan Indonesia* (IAI) is the recognised Professional Accountancy Organisation in Indonesia. With a membership of more than 31,282 accountants around the archipelago, IAI is at the forefront of the development of the accountancy profession in the jurisdiction and actively contribute to adoption and implementation of international standards including auditing and assurance standards as issued by the IAASB.

On behalf of IAI, I am pleased to present our response to your consultation on the proposed standard for audits of Less Complex Entities (LCEs). We welcome the introduction of this standard, as part of the Board's continuing efforts to respond to current audit and assurance challenges, including those faced by auditors in their audits of the LCEs. We understand that there is a growing need for ISAs to be scalable for use in audits of LCEs, primarily because in many jurisdictions, including Indonesia, LCEs represent a large percentage of entities subject to statutory audit requirements. We support the Board's initiative to take on this project, to promote consistency of auditing standards for LCEs across jurisdictions and to avoid having fragmented auditing standards.

In general, we agree with the overarching principles applied in developing the standard – which draw upon existing principles in ISAs, to support consistent performance of quality audits. The standard is concise, written in plain/understandable English, and still based on the same objectives of achieving high quality audit.

I would like to invite you to refer to the appendix for our responses to specific parts of the proposed standard. Please do not hesitate to contact us should you have any questions or require any clarifications.

Thank you.

Ikatan Akuntan Indonesia




Elly Zarni Husin

Executive Director



Appendix 1: Responses to Specific Parts of the Proposed Standard

- 1) We support the proposal to develop a “self-contained” and standalone standard for LCEs. It provides clarity for auditors in determining which standard they should refer to in performing the audit of LCEs, and to avoid unintended practical consequences that may arise because of allowing auditors to refer to different parts of the ISAs in addition to this standard when performing the audit of LCEs.
- 2) We understand that it is virtually impossible to develop all-encompassing criteria that can be consistently applied across jurisdictions. Determining LCEs is on itself a judgement matter. On the other hand, regulators or national-standard setters might have considered jurisdiction-specific factors in determining the applicability of the ED in their jurisdictions. Accordingly, we understand the basis of proposal to prescribe limitations for using the ED by way of specific prohibitions (par A.7) and qualitative characteristics (par A.8) which may preclude the use of the ED.

Nonetheless, the proposal (par A.11) to allow regulators or national standard setters in each jurisdiction to modify (but not remove) classes of entities prohibited to use the ED in par A.7.(c)(i)-(iv), for example by determining specific quantitative criteria, may raise concern as to how the modified criteria (the subset) will not be arbitrary and will still be consistent with other prohibitions in par A.7 as they are originally intended by the IAASB.

- 3) Taking into consideration that the qualitative characteristics are to be applied at the engagement level, we are of the view that further supplemental guidance is necessary. Determining whether each entity exhibits complex matters or circumstances, which may preclude the use of this standard, is judgmental matters. For example, determining whether the accounting estimates (following the requirements of the applicable financial reporting framework) applied by the entity are less complex, which will then warrant the use of this standard, might be an aspect requiring further supplemental guidance.

In cases where the entity is no longer exhibit the qualitative characteristics of an LCE as defined in the standard during the period, questions arise as to how and when the auditors should transition from using this standalone standard into ISAs. For example, based on information gather during the client acceptance process, auditors may conclude that the entity exhibits qualitative characteristics of an LCE; yet if the entity acquired another business near year-end (resulting in the application of more complex accounting estimates, and the necessity for having a group audit), the conclusion may have changed as the entity no longer exhibit the qualitative characteristics of an LCE. Further clarification and guidance might be necessary.
