

Ladies and gentlemen,

In pursuance with your kind invitation to comment on the exposure draft of proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities I would like to present certain specific comments on the questions included in your Questions for Respondents.

### **General Comments on Proposed ISA for LCE**

Response:

Explanatory Memorandum describes the history of developing a separate standard for LCE and the need for the ISAs to be scalable in order to be used for audits of all entities, regardless of size or complexity. Unfortunately it does not formulate clearly the reasons of that need. That is excessiveness of the full set of ISAs for audits of LCEs. Such excessiveness appears in two ways: a) excessive ISAs which are not applicable for certain audits of LCE; b) excessive requirements of some ISAs for audits of LCE.

The first «problem» is successfully settled in the ED as such excessive ISAs are excluded from its text. But this «problem» is not a problem at all as that which is not applicable and cannot be applied is not applied.

The second problem is more serious. Furthermore, as it is mentioned in para.4 recent revision of ISAs such as ISA 540 (Revised) and ISA 315 (Revised 2019), as well as revisions to the IAASB's quality control standards, ISQM 1 and ISA 220 (Revised), and the development of new ISQM 2 grew concern about the length, complexity, and understandability of these standard and their application to audits of LCEs. This problem is not settled in the ED.

The only thesis of the full ISAs which is really excessive for audits of LCEs and which is not included into ED concerns audit strategy. But this point is not of great significance.

Under such circumstances it may seem doubtful if audit organizations would use such a standard. Costs of using it may exceed benefits.

See para 17(c) below.

ED as ISA 315 and others uses terminology which determine principle contradictions: they require to assess inherent risk for a particular risk of material misstatement at the assertion level determining the significance of the combination of the likelihood and magnitude of a misstatement (para 6.5.1). But according to para.8.2.3 auditor determines uncorrected misstatement not at the assertion level (as it is impossible) but in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole.

### **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: See General Comments above.

- (b) The title of the proposed standard.

Response: The title of the proposed standard is correct.

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

Response: It seems better not to use letter «A» while numbering paragraphs of the section.

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: Yes.

#### *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: Yes, but there may appear difficulties with qualitative characteristics and detection of limitations relating to the use of the standard during the audit process (for example para.6.5.11).

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

Response: No comments.

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

Response: Accounting estimates and limitations relating to the use of the standard should be analyzed more thoroughly as all necessary audit procedures for some accounting estimates may be fulfilled under audit of LCE.

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

Response: No comments.

(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, it is.

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: a) Specific prohibitions are clear; b) some qualitative characteristics seem strange: for example – why companies in the start-up or development stage of its life cycle could not be treated as LCE?

5. Regarding the Authority Supplemental Guide:

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

Response: Yes, it is.

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

Response: No 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: No 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: It seems better to use subheadings for requirements and EEM.

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

Response: The approach to the objectives is clear and correct.

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

Response: Using of key principles is correct.

- (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: It seems better to use subheadings for requirements and EEM.

*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: Drafting principles are correct. And it is important to stress process like approach instead of subject matter or topic like approach in the ISAs (para.92, 96). See para 7 (a, d) above.

*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 1. It seems strange that going concern is not included into the range of the fundamental concepts, general principles and overarching principles and is included only into Part 5, 7 and 8.

Part 2. No comments.

Part 3. No comments.

Part 4. It seems rational to include into this part not only opening balances but comparatives too. It seems strange that comparatives are included into part 9 when it is already late to perform any procedures to their transition (para.9.7.2 and others).

Part 5. No comments.

Part 6. This is the most important part of the standard which should be analyzed more thoroughly. LCEs include wide range of entities from very small to relatively large. To be useful for auditors of such different entities the standard must not only reproduce requirements of ISAs but create

possibilities not to use excessive ones. According to para.7.3.16 auditor shall perform substantive procedures irrespective of the assessed risks for each material class of transactions, account balance, and disclosure.

This standard as ISAs utilizes a risk-based approach to an audit. This approach is vital when auditor uses samplings. Risk and sampling are interdependent definitions. When financial statements include 3-4-5 balances and few operations and auditor perform substantive procedures to all of them or nearly all auditor may decide not to rely on internal control or use nearly 100% examination. Under such circumstances what is the necessity to identify controls that address risks of material misstatement at the assertion level as it is specified in para.6.3.14 or to assess Inherent risks at the assertion level by means of the likelihood and magnitude of misstatement (para. 6.5.1)?

***Until such problems are not settled by the standard it could not be useful for auditors of LCEs.***

Part 7. No comments.

Part 8. Wording of para. 8.7.1 needs to be modified as it seems strange at the concluding stage of the audit to require the engagement partner to determine that the engagement partner has taken overall responsibility for the engagement.

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: Yes, but it may appear rational to widen the point of a material uncertainty relating to going concern in the auditor's report (para.9.6.4).

11. With regard to the Reporting Supplemental Guide:

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

Response: Yes.

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

Response: No.

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: See above, para.9 (comments on Part 6 and General Comments).

#### *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: No comments.

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

Response: No comments.

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

Response: Yes.

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

Response: No, revised versions should be effective simultaneously.

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

Response: This point is not of great importance.

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: The proposed standard can be used in Russia.

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

Response: The proposed standard does not meet the needs of auditors who audit financial statements of small and middle entities. See General Comments and para.9 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: Auditors whose clients are LCE and more complex entities should have two sets of templates of WP and explain clients why they use this standard or full set of ISAs; auditors whose clients are only LCE would not see any significant difference between this standard and full set of ISAs

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: See General Comments and para.12, 17(c) above.

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

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

Response: No 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: Problems of translation exist but they are not specific for ISA for LCE. They concern all the ISAs.

Sometimes translations of ISAs into other languages are not accurate enough and misrepresent their meaning.

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: Period of 18 months is sufficient. Earlier application may be permitted and encouraged only for jurisdictions not for users.

### *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: In general audits of LCE must not be audits of group financial statements. But the definition of group in ISA 600 includes entities whose financial statements is not treated as consolidated financial statements under local legislation. For example: the sole legal entity may have divisions (see para. A2, ISA 600) with separate balances as a rule in the same country and even in the same city. «The consolidation process» is simple and unified in standard IT-program. Such «group financial statements» may be included in the scope of ED-ISA for LCE.

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: Possibilities of using the standard does not depend on excluding (or including) group audits from its scope. It depends on other factors. See above.

(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: Approximately 10%.

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

Response: One legal entity with divisions. See para.22 above.

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: See para.22 above.

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: See para.22 above.

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: Presenting all requirements pertaining to group audits in a separate Part.

Hope the comments above will be instrumental for you.

Best regards,



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