



САМОРЕГУЛИРУЕМАЯ ОРГАНИЗАЦИЯ АУДИТОРОВ

АССОЦИАЦИЯ «СОДРУЖЕСТВО»

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To IAASB

From

Self-Regulating Audit Association 'Sodruzhestvo' (SRO AAS), the Russian Federation

Dear colleagues!

Our answers on commenting on the ED-ISA for LCE are given after the relevant questions and highlighted in bold TimesNewRoman font.

The comment was attended by practitioners and academicians - SRO AAS members.

We hope that they will be useful in the development of the standard.

We will be happy to provide you with additional explanations, if any.

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?

The separate standard, that has the standalone nature, in which the main audit requirements are concentrated, may well be implemented.

- (b) The title of the proposed standard.

The title is succinct and reflects the senses of the standard. The name of the standard using the term 'less complex entities' (LCE) is not widely spread in our practice. Nevertheless, the scope of the standard allows to understand which entities it relates to.

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

Since the logic of the standard is that if its requirements are insufficient, they cannot be supplemented by the terms and conditions from the full set of ISAs; instead it is clear that one should abandon the application of this standard in favor of the full set of ISAs, there are nothing to add.

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?

There are no comments to the proposed conforming amendments to the IAASB Preface. However, we consider worth reflecting this standard in the Structure of IAASB Pronouncements.

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?

The Authority as presented looks implementable. The approaches used by IAASB to define a ‘less complex entity’ are clear. The introduction of direct prohibitions, qualitative characteristics that allow us to assess the complexity of the entity, the power of regulatory authorities at the level of jurisdictions to make changes to the list of entities given in paragraph A.7. (c), is the right decision. In addition, the correct application of the Scope is facilitated by Additional Guidance on the Authority of the standard.

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

The unintended consequences that could arise that the IAASB has not yet considered can be identified in course of practical application.

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

The ‘decision-making funnel’ of the decision on the application of the standard is convincing. There are no specific areas within the Authority that are not clear.

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

It can be assumed that an intended user has been appropriately informed about the Authority of the proposed standard.

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

The proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions is clear and appropriate. The role assigned by ED to regulatory authorities at the level of jurisdictions is appropriate. Our local Regulatory authorities have the opportunity to limit the application of the standard at the level of a specific jurisdiction, to include additional types of organizations in List A7 (c) or to set specific quantitative thresholds, such as, for example, amount of income, assets and/or the number of employees (A.7. (c) (v)).

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.

We almost agree with the proposed limitations relating to the use of ED-ISA for LCE. Specific limitations may be set at the jurisdiction level.

In general, we support the direct prohibitions introduced by the standard, since entities with such characteristics should not belong to less complex entities. At the same time, we believe that additional explanations on the issue of assessing the complexity of non-for-profit organizations should be introduced for para A5.

It follows from paragraph A9 that the ISA for LCE is not suitable for auditing financial statements if the entity has a complex ownership or supervision structure. We believe that additional

clarifications should be given to paragraph A9 to clarify in which cases the complexity of the ownership structure or supervision affects the complexity of the audit and whether or not the complexity decision tree may be included in the standard.

5. Regarding the Authority Supplemental Guide:

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

The materials of the Authority Supplemental Guide are useful for understanding.

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

More examples to include would be helpful for users.

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

We didn't notice any other matters related to the Authority that the IAASB should consider as it progresses ED-ISA for LCE to finalization.

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).

The approach to how the ISA requirements had been incorporated in the proposed standard looks reasonable.

There is the concern that the requirements of this standard are stricter than the corresponding requirements of the full set of ISAs. For example, para 6.7.1. 'The auditor shall communicate to management, and where appropriate, those charged with governance, the significant risks identified by the auditor.' – there are no such requirements in ISAs. This requirement may cause problems in practice, in particular in case of following the anti-money laundering legislation by an auditor. This requirement is also unlikely to be acceptable if management fraud is detected or the auditor is deceived.

We suggest elimination such kind of inconsistencies.

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

We agree with the approach to the objectives of each Part of the proposed standard.

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

We agree with the principles in relation to professional skepticism and professional judgement, relevant ethical requirements, and 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.

The approach to EEM doesn't look reasonable because:

- **Requirements and EMM explanations may be confused.**
- **The way the EEM has been presented within the proposed standard (the font and the frame) is not commonly acceptable for the Russian practice. The official acts don't have such**

characteristics as different color of the font or text box or the field. This will cause significant effort in Russia to distinguish standard from EMM explanations without the adoption of the standard format to the one similar to the official act in Russia.

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).

The overall design and structure of ED-ISA for LCE, including where relevant, on the application of the drafting principles, seems to be different from those in the ISAs but are justified from the point of view of the flow of the audit process and its conclusion.

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.

The overall design and structure of ED-ISA for LCE., including, where relevant, on the application of the drafting principles, seems to be different from those in the ISA but are justified from the point of view of flow of the audit process and its conclusion.

Please, pay attention to some considerations regarding the text of the standard as noted below:

Paragraph	Text of the standard statement	Comments
7.4.1.	The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern.	The actions of the auditor are not considered in the case when there is no management's assessment or the assessment is inadequate.
A.3.	Specific <u>classes</u> of entities. Preface - A clear description of <u>the types of entities</u> .	Inconsistency of terminology: 'classes of entities' or 'types of entities'.
1.8	General Communications with Management and Those Charged with Governance	We suggest establishing the term of the TCWG for the LCE; as discussed in EEM, existing term of the TCWG can potentially mislead about the applicability of the ISA for LCE, since what is described clearly relates to complex corporate governance.
EMM before 5.2.12	Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. General purpose financial statements are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.	It is not indicated in the going concern description that the entity will be able to fulfill its obligations as they become due. But this is one of the most important criteria for a going concern entity.
Content of Part 6	Understand the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control (the entity's internal control system);	The words 'the entity's internal control system' are put twice.
6.1	Title 'Objectives'	The use of the plural for ' objectives' is incorrect, because there is only one objective of this part.

EMM para 6.1.1	Understanding the entity and its environment, the applicable financial reporting framework and the entity's internal control system enables the auditor to identify and assess the risks of material misstatement. The auditor's understanding of the entity and its environment, the applicable financial reporting framework, and the entity's internal control system are interdependent with concepts within the requirements to identify and assess the risks of material misstatement.	Two sentences, the meaning of which is very similar. This leads to an excessive unnecessary text of the standard.
6.5.4	The determination of which of the assessed risks of material misstatement are close to the upper end of the spectrum of inherent risk, and are therefore significant risks, is a matter of professional judgment, unless the risk is of a type specified to be treated as a significant risk as set out in paragraphs 6.5.4.–6.5.5.	It looks like the link is not correct. Since paragraph 6.5.4 contains a reference to paragraph 6.5.4, that is, to the same paragraph.
6.7.1.	The auditor shall communicate to management, and where appropriate, those charged with governance, the significant risks identified by the auditor.	The requirement is stricter than contained in the ISAs and cannot be easily used in case of anti-fraud audit procedures an auditor is performing and communicates to relevant bodies.
7.1.2.		There is no paragraph 7.1.1.
different paragraphs	Modification of opinion and modification of report	These are two expressions used in the text of the standard simultaneously. Since the expressions are different, it is unclear whether they mean the same thing or different. This can be misleading.

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.

We agree with the approach that defines the format and content of an unmodified audit report as a mandatory requirement of the standard.

However, we note that the understanding of Part 9 regarding the preparation of audit opinions is difficult without the application of the relevant ISAs 700 series. The principles of including Emphasis of Matter Paragraphs and Other Matter Paragraphs are not clearly spelled out. The perception of the principles of opinion modification is difficult, and the guidance is unclear. The format of the examples of audit reports is somewhat different from that given in the ISAs 700 series, which may lead to a lack of uniformity of audit reports due to the use of different standards.

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?

The Reporting Supplemental Guide is helpful, but we foresee the problem with its status. It is not the part of the standard, and therefore auditors would be not familiar with it. We advise to make this Guide the part of the standard or somehow emphasize its status as a part of the standard.

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.

We do not have a common practice that would allow us to identify bottlenecks in the application of the standard. Some considerations on the revision of the standard are given in our answer to question 9. We also consider that the standard does not clearly define and foresee different issues and scenario that may arise in practice regarding going concern assessment and the effect to the audit.

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

We consider that additional IAASB guidance on considerations for the transition from the application of ISAs for LCE to the application of a full set of ISAs and vice versa will be useful. Explanations of the matters when a need of transitioning from ISAs arises will be useful. We see also potential questions from the financial statements and audit reports users' standpoint since the latter would need to be well oriented in the understanding of the application of ISAs for LCE comparing to ISAs. Whose role in such informing of the users will be critical and what is the obligation from the auditors perspective are the open questions now.

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

We believe that the current practice of updating standards (ISAs) can be effectively extended to this standard.

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

In our opinion, all changes to this standard should begin to take effect at the same time as the relevant provisions of the ISA are changed. It doesn't necessarily have to be sooner or later. Transition period would allow to assess application difficulties, if any, and duly collect public response.

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

In ED ISA for LCE, it is advisable to include a separate part on the application of the ISA-800 series for LCE. We used to conduct an audit of special purpose financial statements of those organizations that can be attributed as LCE. Such a part may be considered relevant for development and inclusion in the ED, that is, before the ISA for the LCE is adopted.

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.

We expect that this standard will be applied in Russia and in other Russian-speaking countries.

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

It is generally considered that for auditors focus on the scope of the requirements of this standard instead of following all relevant ISAs may be less time consuming. However, we anticipate observing the expectation and understanding gap of the stakeholders of audit services, more judgment and time to be required from the auditor to conclude and document compliance with LCE criteria and assessing their validity throughout the audit notwithstanding redoing the audit under ISA once such criteria are not met during the audit period. Auditor's judgment on applicability of LCE may differ from auditor to auditor, which may cause issue in case of changing the auditor or in case on quality control procedures (external or internal) e.g. in arguing sufficiency of documentation and even challenging compliance with the criteria.

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

We do not see specific problems that could prevent the implementation of the standard except of the form in which EMM are presented.

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?

There are no other special matters to consider.

Section 4G - Approach to Consultation and Finalization

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

As we noted above, we find useful to include additional guidance on the transition from the application of this standard to the full set of ISAs and vice versa. In addition, we consider it useful to clarify how the standard and the Guide to Using ISAs in the Audits of Small and Medium Sized Entities (the 'Guide') interrelate to each other. Perhaps the Guide should be adopted on the basis of ISAs for LCE.

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.

In the answer to question 9, we noted some inaccuracies and inconsistencies in the use of terminology that may cause difficulties in translating the standard.

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 18-month implementation period looks sufficient.

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.

In our opinion, the group is an object that cannot be less complex in its essence. Therefore, we believe that group audits should be excluded from 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?

We consider that the standard will be used even if group audits are excluded. The components of the group can be audited using the ISA for LCE, and the group itself can be audited using the ISA 600.

- (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?

We do not have accurate statistics of this indicator, which is probably few percent.

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

An example of a group may be several subsidiaries, each of which owns a real estate object for rental purposes, and a parent organization.

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.

It may be worth setting a restriction that this standard can be applied to the audit of the group, if it is not inapplicable for at least one entity of the group.

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?

We don't have an idea of such other way.

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.

Both ways can be implemented. The presentation of requirements in a separate part has the disadvantage that the sequence and logic of parts of the standard as an audit flow will be mismatched. The presentation of requirements in each separate part of the standard at first glance clutters up the text and distracts those who do not apply the standard for group audit. However, it seems that there will not be many separate requirements for the LCE group audit, then it is better to include them in each relevant parts of the standard.

Sincerely yours,



Tatyana L. Okolotina,

Chairman of SRO AAS Audit Standards and Methodology Committee

January 31, 2022