



No: 1/President/AFA/I/2022

Jakarta, 31 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 [ASEAN Federation of Accountants \(AFA\)](#) serves as the umbrella organisation for the recognised national Professional Accountancy Organisations (PAOs) of the Association of Southeast Asian Nations (ASEAN) Member States. AFA has a regional network of more than 200,000 accountants in the ASEAN region, supported by a global network of PAOs with close to 3 million members worldwide. AFA is an accredited Civil Society Organisation of the ASEAN recognised under the ASEAN Charter and an IFAC Network Partner.

On behalf of AFA, I am pleased to present our response to the IAASB's consultation on the new standard for audits of Less Complex Entities (LCEs). We support the Board's work on this area and recognise LCEs as an important group of stakeholders for the profession, particularly in ASEAN. AFA appreciates the transparency and quality of information and resources that the Board has made available to encourage stakeholders to understand and participate in the consultation. We found them particularly useful in building awareness towards the discussion.

As part of our ongoing effort to support adoption and implementation of ISAs in ASEAN, as well as to encourage our ASEAN stakeholders to participate in the consultation and engage with the Board, we have conducted a joint regional roundtable discussion together with IFAC and the IAASB on December 1, 2021. A total of 145 participants and observers from the region participated in a discussion facilitated by the IAASB Board Member, Chun Wee Chiew. Where relevant, we have included feedback from the participants in our response, as well as results from an informal poll conducted with the observers.

In principle, we appreciate the Board's efforts to consider different approaches to develop the standard. We understand the complexities of the discussion, as reflected in the mixed views that we are hearing from our stakeholders on different aspects of the consultation. To complement our high-level response, we are encouraging our member organisations and stakeholders to submit their individual responses and further contribute to the Board's deliberation.

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You may refer to the appendix for our full response to the consultation.

Please do not hesitate to contact our Executive Director, Mr Aucky Pratama (aucky.pratama@iaiglobal.or.id) should you have any questions or require any clarifications.

Thank you.

Yours sincerely,

Voravit Janthanakul
President



APPENDIX 1: Response to the IAASB's Consultation on the New Standard for Audits of Less Complex Entities

Overview

1. We welcome the proposed standard dedicated for audits of LCEs, recognising the growing importance of its potential users in emerging economies such as ASEAN. The standard is perceived to bring potential benefits particularly to stakeholders such as Small and Medium Practices (SMPs) and Small and Medium Enterprises (SMEs), who may find it tailored to their specific needs. We recognise that the standard is not to be perceived to require less work, rather to focus more on the right work.
2. In general, we support the Board's initiative to introduce a standalone standard that can be applied consistently across different jurisdictions and avoid fragmented approach in audits of LCEs. However, we recognise the principle-based nature of the requirements in both the proposed standard and ISAs, and how this would allow the standards to be scaled based on the audit. Thus, the distinction can be arbitrary.
3. To encourage stakeholders' acceptance, many of our respondents suggested the Board to address a fundamental question of what the standard will bring to the practice compared to selective and scalable use of existing ISAs. As both aspire to provide reasonable assurance with similar audit procedures, the Board may consider exploring whether the key difference will be on the required audit documentation.
4. The Board may also need to provide further clarification on the future of this standard, in the context of the Board's Complexity Understandability Scalability Proportionality (CUSP) project of ISAs. Questions have been raised about whether the standard is intended to be an interim measure until the CUSP project is concluded.

Design and Structure

5. Many responses from our region appreciate the conciseness, relatively easy-to-understand design, structure, and overall flow of the proposed standard, highlighting consistency with the process (i.e., 9 parts) involved in audits of LCEs. Formulation of the standard that draw upon existing principles in ISAs provides familiarity and incentive for stakeholders' acceptance. We believe this would contribute to the successful and consistent application of the standard.
6. A main concern for the Board to consider is false expectation that the standard will translate to reduced audit work. The quality that needs to be maintained throughout the audit is still the same as under ISAs, to achieve reasonable assurance. The market may not be able to appreciate this distinguishment and falsely expect the audit to take less effort and thus, deserving less audit fee.



7. The majority of our respondents support the introduction of the standard as a standalone and self-contained standard. Keeping any references to ISAs to a minimum is important to ensure consistency in implementation and avoid unintended practical consequences from having multiple audit standards. This would mean that the standard needs to be self-sufficient, provided with necessary and relevant implementation guidance to help consistent application.
8. **Roundtable discussion poll:** More than 80% of our informal poll respondents support the introduction of a standalone standard for audits of LCEs.

Content (Including Exclusion of Procedures for Audits of Group Financial Statements, and use of EEM)

9. Many of our respondents disagree with the definite exclusion of audits of group financial statements from the standard. This may alienate potential use in different scenarios such as in audits of groups with fairly simple operations and functions that by characteristics may be classified as LCEs. The Board may consider relevant aspects of its revision of ISA 600, particularly on the use of component auditors. If audits of group financial statements are included, we have received a response for the Board to consider comprehensively presenting all requirements in a separate part of the standard to allow for easy focus and/or carving out.
10. We recognise the usefulness of the Essential Explanatory Material (EEM) presented as part of the standard in providing further implementation guidance. However, some respondents believe the standard would benefit from presenting more comprehensive EEM (with examples to support consistent application of the standard) separate from the body of the standard. This is particularly important for areas/parts where auditors of LCEs are facing significant challenges, such as risk identification and assessment (part 6) and responding to assessed risks of material misstatement (part 7).

Authority and Scope

11. Some respondents questioned the Board's proposal to introduce a definite prohibition on listed entities. An entity that for all other aspects meet the criteria for an LCE but own a simple investment in a non-listed entity may be required to conduct a fair value assessment and thus, be considered as non-LCE. Moreover, some listed entities whose sole purpose is to serve as holding companies could potentially satisfy the characteristics of an LCE. However, there are views that in order to enable this standard to be used for certain listed entities, there must safeguards to prevent any perception by stakeholders that could be detrimental to these listed entities arising from the use of a different set of auditing standard as compared to other listed entities.
12. We appreciate the qualitative characteristics provided for the auditors (and users) to apply judgment in assessing the use of this standard. To supplement



this, the Board may consider introducing some relevant proxies to complexities, to achieve uniform and consistent application of the standard. Several respondents have mentioned about the benefit of presenting quantitative proxies to assist in making consistent judgment.

- 13. Roundtable discussion poll:** Close to 70% of our respondents believe that the qualitative characteristics set out appropriately describe a typical LCE.

Implementation

14. Many of our respondents who represent the different stakeholders in ASEAN believe that their respective jurisdictions will consider adopting and implementing the standard. Some of the pros and cons, and considerations highlighted by our respondents were:

- a. Introduction of the standard may present an opportunity for firms to reconsider their audit methodology. Larger firms with large and small clients may also consider performing audits of LCEs using this standard as a training opportunity for their staff prior to audits of larger entities under ISAs.
- b. Important for the Board to consider customised and tailored communication package for different group of stakeholders, to ensure consistent communication, continue building awareness, and ensure wider stakeholders' acceptance. The communication needs to focus on among others:
 - i. Explaining key differences and consequences in practice between the proposed standard and audits for LCEs under relevant parts of the ISAs.
 - ii. Addressing users' perception that the standard will result in audits of lesser quality compared to audits under ISAs.

15. Our respondents shared the following potential implementation challenges that need to be considered and/or addressed by the Board before finalising the standard:

- a. Potential challenge for larger firms with a mix of LCE and non-LCE clients in managing their "dual" practice. It is critical to maintain consistency in applying judgment to differentiate between the audits. Further complications may be present, in term of building and managing the firms' capacity to conduct both types of audits.
- b. Where SMPs in general may be looking forward to the standard, larger firms may be indifferent, especially those that have already applied audit programmes that are tailored for LCEs.
- c. Potentially different views and conclusion when applying judgments between predecessor and successor auditors.
- d. On potential transition between this standard and ISAs, the proposed standard implied more work needed to establish the opening balance. Some of our respondents find this contradictory with the requirement for both standards to provide reasonable assurance.