

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:

Ardiana Bunjaku

Organization (*where relevant*):

*Society of Certified Accountants and Auditors
of Kosovo (SCAAK)*

Country/Region/Jurisdiction:

Kosovo

General Comments on Proposed ISA for LCE

Response:

- We strongly support this project and keen to see the standard issued sooner rather than later.
- Overall, we agree with the fundamental principles, design, and content of the standard. We especially like the way it follows the logical flow of the audit.
- We believe that all stakeholders need to work on promoting this standard and educating users on the product from this standard to avoid the risk of users thinking that audit using ISA for LCE provides different assurance from that of using full ISAs.
- We have some reservations as to Authority:
 - the audit of group financial statements ought to be scoped in – many groups are less complex.
 - the LCE concept with its qualitative criteria has some challenges of its own and therefore additional guidelines need to be developed.

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: We agree with the standalone nature of the proposed standard.

There has to be detailed guidelines for auditors in making initial judgment if an entity can be audited using this standard in order to avoid circumstances when it is needed to change to ISAs.

We agree that auditor must not refer to specific ISA when dealing with issue not fully addressed in ISA per LCE.

- (b) The title of the proposed standard.

Response: The proposed title is appropriate

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

Response: It is very important to promote this standard to all stakeholders and stress that audit resulting from use of ISA for LCE is equivalent to audit performed using ISAs. A strong effort should be taken from the IAASB, professional accountancy organizations (PAOs), regulators, accounting firms and other stakeholders to convey this message.

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: We agree with the proposed conforming amendments to the IAASB Preface.

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: We believe that the Authority as presented is implementable *in large part*.

We do, however, have some concerns and doubts as to whether the proposed limitations relating to qualitative criteria are implementable. We elaborate further in our response to Q4.

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

Response: We are not aware of any unintended consequences that could arise.

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

Response: We believe the Authority to be clear but, as we explain in our response to Q4, may prove difficult to implement in the case of the qualitative criteria.

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

Response: We believe the Authority achieves the intended objective of appropriately informing stakeholders about the scoping 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?

Response: We believe the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions to be clear and appropriate.

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 agree with the proposed limitations relating to the use of the ED-ISA for LCEs except as explained below.

Specific prohibitions – we agree with these except for the exclusion of audits of group financial statements. Groups are not necessarily more complex than individual entities. In our country for example, majority of groups are not complex and the ownership is concentrated in very few people, e.g., families. Hence, we suggest that groups be scoped in and use the same logic of evaluating qualitative characteristics similar to individual entities.

Qualitative characteristics – there are many of these and inevitably their application will be highly subjective. While we appreciate the effort taken to develop, articulate and describe these criteria we suspect the degree of subjectivity may mean they are not implementable. Therefore, we believe that more guidelines are needed to auditors when assessing these characteristics.

We note that the ED (paragraph 64) says that the IAASB debated the use of quantitative or other exemption thresholds or more specific criteria to scope the standard but “agreed that it would not be practicable for the IAASB to define exemption thresholds or other criteria about what may constitute an audit of an LCE that would be capable of consistent global application because of, for example,

the varying sizes of economies and sophistication of jurisdictions.” We agree with the IAASB conclusion.

5. Regarding the Authority Supplemental Guide:

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

Response: We believe the guide is very helpful in understanding the Authority and we will appreciate more examples and cases to assist auditors when assessing qualitative characteristics.

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

Response: We have no suggestions as to other matters that should be included in the guide except as mentioned in our response to 5 (a).

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: We do not have any matters that should be considered.

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: We agree with the approach to how the ISA requirements have been incorporated in the proposed standard.

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

Response: We agree with this approach.

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

Response: We agree with the inclusion of these principles.

(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 agree with the approach to EEM including content, sufficiency, and its presentation. We propose to IFAC developing a ‘Guide to using ISA for LCE’ similar to ‘Guide to using ISAs for Audits of SMEs’.

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: We welcome the overall design and structure.

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: We believe the content to be robust, proportionate, and complete.

We have reviewed the content to get a general sense of its appropriateness. Furthermore, we are confident that the robust process followed in developing the standard will result in a high-quality standard that is accurate and complete.

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: We agree with the approach taken for auditor reporting requirements.

We welcome the fact that the section 'Basis for Opinion' makes it clear that the audit is performed in accordance with the ISA for LCE standard.

11. With regard to the Reporting Supplemental Guide:

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

Response: We find the Reporting Supplemental Guide helpful.

Indeed, guidance of this nature, outside the body of the standard is especially helpful and in time support material might extend to most if not all aspects of the standard in the way that the IFAC ISA Guide does for the ISAs.

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

Response: We do not have any other matters in relation to reporting, other than in relation to audit of group financial statements, should be included.

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: We do not believe that any area can be improved upon.

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: We agree with provisions set forth in this section and auditors' duty to consider appropriateness of use of this standard and in cases where there is a need to transition from this standard to ISAs, section 4F provides sufficient guidelines.

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

Response: We believe no further guidance may be necessary.

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

Response: We agree with the proposed approach to the future updates and maintenance of the Standard and related supplemental guidance.

The approach strikes an appropriate balance between having a relatively stable platform and ensuring the standard reflects prevailing best practice.

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

Response: We encourage using the same approach as is used for the ISAs that is, allowing early adoption.

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

Response: We encourage inclusion of part on ISA-800 series since in cases where an entity would prepare a single financial statement or financial statements are prepared in accordance with special purpose framework would be excluded from using ISA for LCE and full ISAs would be required to audit these entireties. Majority of cases when ISA 800/805 is used in our country are with non-for-profit organizations funded by different donors which in nature are non-complex entities.

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 believe that Kosovo can, and will use the standard although we as professional organization need to promote this standard with our regulator and Ministry of Finance.

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

Response: We believe the proposed standard effectively meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.

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

Response: We are not aware of any other aspects of the proposed standard that may create challenges for implementation, other than those challenges addressed 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: We do not believe there are any other matters that the IAASB should consider in terms of the form and content of the proposed standard. However, as we mention above, we believe there to be a significant challenge in promoting, positioning, and presenting the standard to the corporate reporting world.

It is vital that the communications by the IAASB, professional accountancy organizations (PAOs), regulators, accounting firms and other on and around the new standard consistently and robustly stress that use of this standard results in an audit of equivalent quality to an audit performed using the ISAs. Every effort needs to be taken to avoid giving the impression that the standard is less rigorous than the ISAs, rather it is a standard tailored to fit different types of entity.

Section 4G - Approach to Consultation and Finalization

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

Response: We believe there will be an urgent need for more support and guidance.

As we previously note, the standard, quite rightly, does not include guidance as such. Guidance for the most part is best left out of the standards and included in separate non-authoritative documents produced by IFAC, PAOs and others.

We recognize the considerable training and education effort needed for the effective implementation of the standard. We therefore encourage the Board to collaborate with IFAC in developing appropriate support and guidance. We urge IFAC to consider emulating its experience with its [‘Guide to Using ISAs in the Audits of SMEs’](#) (‘ISA Guide’) by developing a Guide to the Use of ISA for LCEs.

We also urge the Board to look at ways of placing the standard and guidance onto a common digital platform such that users can easily find the relevant requirements and supporting guidance.

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: We see no translation issues peculiar to this project.

This project presents the same of similar translation issues and challenges as confronted on any IAASB project. However, these challenges will likely be more acute given the volume of the standard and supplemental guidance. Furthermore, given the emphasis afforded authority and scope there is much for local regulators to read and understand.

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: We believe this will provide a sufficient period to support effective implementation of the ISA for LCE.

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 support the inclusion of group audits.

As mentioned above we support inclusion. Groups are not necessarily more complex than individual entities. This is especially the case when the management and ownership are concentrated in the hands of very few people: such groups tend to be managed as a single entity.

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: We suspect it will be adopted and used even if group audits were excluded. However, the exclusion of groups will likely significantly limit the extent to which the standard is used.

(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: We are not a firm or practice.

We suspect that for many, if not most, SMPs a minority of their audits would be group audits. This proportion will likely rise from small to large minority as one moves up the scale of practice size.

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

Response: We are not a firm or practice.

As mentioned above groups are not necessarily more complex than individual entities. A single owner may have 2 or more companies which are less complex in nature and law requires consolidation even though they tend to be managed as single entity.

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: We hold no strong view but slightly prefer Option 1.

Option 1 seems to be a simpler, less complex option. We prefer the 'bright lines' from using a proxy to leaving it for auditors to exercise their professional judgement in applying qualitative criteria. As we mention at the outset above, we have concerns over the subjectivity of using qualitative criteria to determine what is an LCE. We have similar concerns here. We think for consistent application and ease of use it is better to use Option 1.

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: We cannot identify any other ways than the alternatives described above, nor can we think of any other proxies better than those presented.

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: We have a preference for presenting all requirements pertaining to group audits in a separate Part.