Audits of Less Complex Entities – ED-ISA for LCE – Q9 (Preface)

Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9 - Views on the content of Parts 1 through 8 of ED-ISA for LCE\3) Other Content Specific Responses\a. Preface

3. Regulators and Audit Oversight Authorities
Independent Regulatory Board for Auditors (IRBA)

We recommend that consideration be given to revisions of paragraphs P2, P3 and P6 of the Preface:

- Part A of the proposed standard does not describe the entities that the standard has been designed for; rather, it describes the entities that may not use the proposed standard.

- Editorial recommendation to paragraph P2:
  Part A of the proposed standard describes “… the specific prohibitions and qualitative characteristics that will make the [draft] standard inappropriate for use in an audit of the financial statements of an LCE …” (extract from paragraph A1 of Part A of the proposed Standard). It does not provide a “… clear description of the types of entities for which an audit in accordance with this [draft] standard has been designed …”:
  “Part A sets out the authority for this [draft] standard. A clear description of the specific prohibitions and qualitative characteristics that will make the [draft] standard inappropriate for use in an audit of the financial statements of an LCE types of entities for which an audit in accordance with this [draft] standard has been designed - as set out in Part A - is essential so that: …”

- Editorial recommended to paragraph P3:
  Paragraph P3 is misleading and contradicts paragraph A11 when read with paragraph A6-A7 of Part A. This should be replaced with paragraph A11 or an iteration thereof.
  “As part of the local adoption and implementation process, legislative or regulatory authorities or relevant local bodies with standard-setting authority may:
  Modify, but not remove, the classes of entities in paragraph A.7.(c)(i)-(iv) by, for example, applying quantitative criteria to a class or otherwise modifying as set out in paragraph A.6.; or
  Further limit use of the [draft] standard in paragraph A.7.(c)(v) by inclusion of an additional class(es) of entity or through setting specific size criteria (such as using revenue, assets or employee number limits).
  Descriptions of the type of entities for which an audit in accordance with this [draft] standard is permitted rest with legislative and regulatory authorities or relevant local bodies. Such descriptions may or may not align with the limitations for use as set out in Part A. The intended scope of this [draft] standard corresponds to the matters describing an audit of the financial statements of an LCE as set out in Part A and does not contemplate jurisdictional descriptions.”

- Paragraph P16 in the Preface states the following:
  “This [draft] standard is relevant to engagements in the public sector if the criteria set out in the Authority in Part A have been met. …”
  Paragraph P16 is misleading as there is no criteria for an LCE provided in Part A of the Authority, but rather entities that do not meet the requirements for using the proposed standard. We suggest that this paragraph be amended to align with Part A of the Authority.

4. National Auditing Standard Setters
Institut der Wirtschaftspruefer in Deutschland e.V. (IDW)

We agree with the proposed conforming amendments to the IAASB Preface with the one minor exception of the words “may also encompass” in the first sentence of paragraph P7. The second sentence deals with situations when the financial reporting framework encompasses standards as well as law or regulation. In line with paragraph A5 of ISA 200, the first sentence of P7 deals with situations when the financial reporting framework encompasses financial reporting standards or alternatively law or regulation. Consequently, the words “may also encompass” should be deleted.

5. Accounting Firms
ETY sas

Editorial to paragraph P3 – Paragraph P3 as currently written is misleading and strongly contradicts paragraph A11 read with paragraph A6-A7 of Part A and should be replaced with paragraph A11 or an iteration thereof. As written it assumes that the legislative and regulatory authorities or relevant local bodies can broadly decide on the type of entities where paragraph A.11 limits such a decision.

PriceWaterhouseCoopers
Appendix 3 - Detailed Comments
Draft Standard
The section below sets out our other observations and editorial comments by paragraph within the ED. These comments are intended to be read in addition to our overarching comments in our cover letter and appendices 1 & 2 regarding the need for more extensive revisions to the requirements of the standard to better distinguish the ISA for LCE from the ISAs.

Preface
Paragraphs P.1 and P.6 - These paragraphs do not reference the current proposed limitation of applying the standard only to general purpose financial statements. If the 800 series is not incorporated, this limitation should explicitly be addressed.

6. Public Sector Organizations

Government Accountability Office (USA)
However, the presentation of EEM within the proposed standard is not clear. Without the information from paragraphs 85 through 91, it would be difficult to understand why certain text was italicized and highlighted in blue. A paragraph in the Preface section explaining that the EEM is italicized and highlighted in blue would help users of the standard.

7. Professional Accountancy and Other Professional Organizations

Institute of Chartered Accountants in England and Wales
We welcome the clear statement in the Preface that the standard can be applied to public sector entities.

Ordre National des Experts Comptables et des Comptables Agréés du Burkina Faso (ONECCA-BF)
Response:
Yes, technical content is difficult to translate ensure that key terminologies are defined and avoid long sentences like:

P.6 “…Law or regulation may establish the responsibilities of management, and those charged with governance, in relation to financial reporting. This [draft] standard does not impose responsibilities on management or those charged with governance and does not override law or regulation that govern their responsibilities. However, an audit in accordance with this [draft] standard is conducted on the premise that management, and where appropriate, those charged with governance have acknowledged certain responsibilities that are fundamental to the conduct of the audit.”

P20: “…The IAASB will consider the impact on the [draft] ISA for LCE as part of a project to revise or develop a new ISA, and a determination made as to the urgency for the need for a change to this [draft] standard. In developing the exposure draft of the changes for the [draft] ISA for LCE, the IAASB will consider any specific issues that have been brought to the attention of the IAASB regarding application of the ISA for LCE. The IAASB expects that there will be a period of at least eighteen months between when amendments to the ISA for LCE are issued and the effective date of those amendments.”

Specific Comments on the Preface of the proposed standard
We suggest the following editorials to paragraph P3 in the Preface:
Editorial to paragraph P3 – Paragraph P3 as currently written is misleading and strongly contradicts paragraph A11 read with paragraph A6-A7 of Part A and should be replaced with paragraph A11 or an iteration thereof. As written it assumes that the legislative and regulatory authorities or relevant local bodies can broadly decide on the type of entities where paragraph A.11 limits such a decision.

Pan-African Federation of Accountants (PAFA)
Specific Comments on the Preface of the proposed standard
We suggest the following editorials to paragraphs P2 and P3 in the Preface:
Editorial to paragraph P2 – Part A of the proposed standard describes “…the specific prohibitions and qualitative characteristics that will make the [draft] standard inappropriate for use in an audit of the financial statements of an LCE…” (extract from paragraph A1 of Part A of the proposed Standard). It does not provide a “…clear description of the types of entities for which an audit in accordance with this [draft] standard has been designed…”:
“Part A sets out the authority for this [draft] standard. A clear description of the specific prohibitions and qualitative characteristics that will make the [draft] standard inappropriate for use in an audit of the financial statements of an LCE types of entities for which an audit in accordance with this [draft] standard has been designed - as set out in Part A - is essential so that:…”
Editorial to paragraph P3 – Paragraph P3 as currently written is misleading and contradicts paragraph A11 read with paragraph A6-A7 of Part A and should be replaced with paragraph A11 or an iteration thereof.
“As part of the local adoption and implementation process, legislative or regulatory authorities or relevant local bodies with standard-setting authority may:
(a) Modify, but not remove, the classes of entities in paragraph A.7.(c)(i)-(iv) by, for example, applying quantitative criteria to a class or otherwise modifying as set out in paragraph A.6.; or
(b) Further limit use of the [draft] standard in paragraph A.7.(c)(v) by inclusion of an additional class(es) of entity or through setting specific size criteria (such as using revenue, assets or employee number limits).
Descriptions of the type of entities for which an audit in accordance with this [draft] standard is permitted rest with legislative and regulatory authorities or relevant local bodies. Such descriptions may or may not align with the limitations for use as set out in Part A. The intended scope of this [draft] standard corresponds to the matters describing an audit of the financial statements of an LCE as set out in Part A and does not contemplate jurisdictional descriptions.”

South African Institute of Chartered Accountants (2)
Agree.
The following discrepancy has been noted in the Preface:
“P.2. Part A sets out the authority for this [draft] standard. A clear description of the types of entities for which an audit in accordance with this [draft] standard has been designed - as set out in Part A - is essential so that:
- The IAASB can decide on objectives and requirements for inclusion within the ISA for LCE that are appropriate for an audit of an LCE; and
- Legislative or regulatory authorities or relevant local bodies with standard setting authority (such as national standard setters or professional accountancy organizations), firms, auditors, and others will be informed of the intended scope of the [draft] standard.”
Part A of the draft standard does not describe entities which the standard has been designed for, but rather, describes entities which may not use the standard. This wording should be updated for this.

“P.3. Descriptions of the type of entities for which an audit in accordance with this [draft] standard is permitted rest with legislative and regulatory authorities or relevant local bodies. Such descriptions may or may not align with the limitations for use as set out in Part A. The intended scope of this [draft] standard corresponds to the matters describing an audit of the financial statements of an LCE as set out in Part A and does not contemplate jurisdictional descriptions.”
Part A does not set out requirements for an LCE but rather sets out where use of the standard would be inappropriate.

“P.5. If this [draft] standard is used for audit engagements other than those contemplated in Part A, the auditor is not permitted to represent compliance with the [draft] ISA for LCE in the auditor’s report.”
As per the above, Part A stipulates situations where the ISA for LCE cannot be used.

“P.16. This [draft] standard is relevant to engagements in the public sector if the criteria set out in the Authority in Part A have been met. The public sector auditor’s responsibilities, however, may be affected by the audit mandate, or by obligations on public sector entities arising from law, regulation or other authority (such as ministerial directives, government policy requirements, or resolutions of the legislature), which may encompass a broader scope than an audit of financial statements in accordance with this [draft] standard. These additional responsibilities are not dealt with in this [draft] standard. They may be dealt with in the pronouncements of the International Organization of Supreme Audit Institutions or national standard setters, or in guidance developed by public sector audit agencies.”

There is no criteria for LCE provided in Part A, but rather entities which do not meet the requirements. Therefore, the highlighted references do not seem to be appropriate.