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\d. Appendices\i. Glossary

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Lastly, it is not clear as to why the amendments to the Preface and the Glossary have not been done in a similar or consistent manner. The Preface has been updated with the LCE principles, but a separate Glossary has been included in the proposed standard.

4. National Auditing Standard Setters

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

The term “resources” is neither explained in paragraphs 3.2.7. to 3.2.9. nor in the Glossary of Terms. In order to improve the understandability, we propose to insert an EEM that shortly explains the meaning of the term “resources” (human, technological, and intellectual).

Response: We recommend to check if all relevant definitions are included in the Glossary of Terms (e.g. materiality is missing).

5. Accounting Firms

PKF International Limited

The concerns we have with using the words “less complex entity” are compounded by the absence of a definition of the phrase “less complex entity” within the proposed standard or within the glossary to the proposed standard.

In our view, the title of an ISA should be precise and should convey a clear indication as to its scope. The accuracy and pertinence of the title is particularly necessary in conveying useful information to first-time users of the standard. In our view, a more precise and apt title could more accurately convey the full nature and scope of the proposed standard.

Should “Less Complex Entity” continue to be applied in the title of the proposed standard, we encourage the IAASB to consider including this term within the glossary to the proposed standard, which could be an opportunity to clarify more precisely what is meant by the phrase.

RSM International

The qualitative characteristics could be clarified by incorporating the existing definition of a smaller entity from the glossary in existing IAASB Handbook. “An entity which typically possesses qualitative characteristics such as: (a) concentration of ownership and management in a single or small number of individuals; and (b) one or more of the following: (i) straightforward or uncomplicated transactions; (ii) simple record-keeping; (iii) few lines of business and few products within business line; (iv) few internal controls; (v) few levels of management with responsibility for a broad range of controls; or (vi) few personnel, many having a wide range of duties.”

SRA

Within the documentation requirements the term “significant matter” plays a key role. We note that this term as such is not defined in the glossary of terms. For the documentation requirement to be clear, it is essential to provide such a definition.

7. Professional Accountancy and Other Professional Organizations

Institute of Chartered Accountants of Namibia

Glossary of terms:
“Material class of transaction, account balance or disclosure” (Material COTABD)
Par 7.3.16 refers to “Material class of transaction, account balance or disclosure” (COTABD) There is no definition of this term in the glossary or the draft standard itself.

ISA 315 (REVISED 2019) par A235. Includes a statement that “When a class of transactions, account balance or disclosure is determined to be significant as required by paragraph 29, the class of transactions, account balance or disclosure is also a material class of transactions, account balance or disclosure for the purposes of paragraph 18 of ISA 330.”
The impact of an auditor’s determination of what constitutes a material COTABD is crucial to the audit plan as it impacts what audit procedures are required. 7.3.16 requires substantive tests of detail for material COTABDs regardless of the assessed risks. The reason for this comment is that there is some ambiguity in what would constitute a material COTABD.

It is clear from ISA 315 (revised 2019) that significant COTABDs are Material COTABDs, but what else is a Material COTABD? Would a Material COTABD be those with a monetary value that exceeds the materiality threshold set during the planning phase as well as significant COTABDs?

We recommend that either a definition of Material COTABD be included in the glossary or Part 7 should include a similar par to ISA 315 (revised 2019) par A235 as well as a clarification of what else would be considered a Material COTABD.

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\d. Appendices\ii. Assertions

4. National Auditing Standard Setters

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

In Appendix 4 we suggest the use of the combined Assertions as described in the IFAC Guide to Using ISAs in the Audits of Small and Medium-Sized Entities, Volume 1, Chapter 6.

6. Public Sector Organizations

Audit Scotland

Audit Assertions are described in Appendix 4, but their authority derives from EEM at paragraph 6.4.1. Regulatory oversight has resulted in audit assertions being effectively a required part of any audit. It therefore would seem more appropriate for audit assertions to be in the body of the ISA for LCEs rather than indirectly through EEM.

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

Response:
See our response to question 9.
Furthermore, Appendix 4 of the ED ISA for LCE can be simplified based on the combined assertions approach described in the IFAC Guide to Using ISAs in the Audits of Small and Medium-Sized Entities, Volume 1, Chapter 6.

Chamber of Auditors of the Czech Republic

Response:
See our response to question 9. We also proposed to used combined assertions approach described in the IFAC Guide to Using ISAs in the Audits of Small and Medium-Sized Entities, Volume 1, Chapter 6.

South African Institute of Chartered Accountants (2)

Appendix 4 – Assertions

94. We agree that the assertions for ISA for LCEs should remain the same as the ISA assertions, as the objective of providing reasonable assurance based on the procedures performed also remains the same.

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\d. Appendices\iii. Illustrative Engagement Letter

4. National Auditing Standard Setters

Japanese Institute of Certified Public Accountants

Other Comments

The illustrative engagement letter presented in Appendix 5 of ED-ISA for LCE, does not include a description of the responsibilities of management section. Such a description should be included in the template as is the case with Appendix 1 of ISA 210 “Agreeing the Terms of Audit Engagements.”
7. Professional Accountancy and Other Professional Organizations

South African Institute of Chartered Accountants (2)

Appendix 5 – Illustrative Engagement Letter

95. To perform an audit using ISA for LCE entails the same outline and structure as the audit of a non-LCE. Likewise, the amount of audit work performed using ISA for LCE versus ISAs (using the scalability considerations) should be exactly the same if applied to the same client (in theory).

96. There is a risk that if the engagement letter states that the audit has been performed in accordance with the LCE standard, users of the financial statements may perceive the LCE standard as providing a reduced form of assurance than the ISAs, which is not the case. Therefore, to correct this misperception and to educate the users, a paragraph should be included in the engagement letter indicating that the application of the LCE standard results in the same reasonable assurance that would have been provided had the auditor applied the ISAs.

97. This approach may lead to the users of the financial statements and auditor’s report understanding that the LCE standard is of the same standing as the ISAs.

98. Other than the suggested change above, there is no need to have a different illustrative letter. We recommend the use of the same illustrative letter/s provided in ISA 210, Agreeing the terms of Audit Engagements.

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\d. Appendices\iv. Illustrative Representation Letter

5. Accounting Firms

Ernst & Young Global Limited

Written Representations from Management and Those Charged with Governance 8.6.3/Appendix 6 – We do not believe that it is rare for there to be comparative periods (e.g., this is an AICPA requirement) or misstatements in prior periods, but ISA 710.9 was excluded from the ED-ISA for LCE. We disagree with this exclusion and believe ISA 710.9 (The auditor shall request written representations for all periods referred to in the auditor’s opinion. The auditor shall also obtain a specific written representation regarding any restatement made to correct a material misstatement in prior period financial statements that affect the comparative information) should be included in the ED-ISA for LCE as this exclusion implies that financial statements including a restatement would require an audit under the ISAs.

7. Professional Accountancy and Other Professional Organizations

South African Institute of Chartered Accountants (2)

Appendix 6 – Illustrative Representation Letter

99. With the objective being the same as for any other audit, the management representation letter should remain the same as any other management representation letter.