Audits of Less Complex Entities – ED-ISA for LCE – Q13 (Transitioning)

Specific Questions\Section 4F – Other Matters\Question 13 - Views on transitioning\Question 13(a)
Are there any aspects of the proposed standard that may create challenges for transitioning to the ISAs?
a. Solutions Suggested
1) Allow Use of ISA Requirements Including Additional Modules

4. National Auditing Standard Setters
Hong Kong Institute of Certified Public Accountants
Our stakeholders expressed that it would be frustrating to transition an “audit-in-progress” from the proposed standard to ISAs or other auditing standards, which could be detrimental compared with applying the ISAs from the beginning. The requirement to transition simply due to one area of complexity uncovered during the audit is too rigid and is against the ED’s objective to facilitate LCE audits. Our stakeholders generally suggest allowing a “top up” approach in exceptional circumstances where a specific issue revealed during the audit may not be adequately or comprehensively covered in the proposed standard, but all other issues in the audit are adequately covered by the ED. Also, if the “complexity” only exists temporarily for one reporting period, it is not desirable for auditors to shift from the proposed standard to ISAs or other auditing standards from year to year.

We recognize the IAASB’s view that the standalone nature of the ED means that there is no ability to directly reference back to the ISAs to allow the auditor to use ISA requirements for matters or transactions that are not included in the proposed standard. However, we also share stakeholders’ concerns on disallowing the continuing use of ED-ISA for LCE in case of an unforeseeable circumstance uncovered during the audit.

To strike a balance, we would like to suggest the following:

The ED to allow an LCE audit to fallback to specific ISA requirements on narrow-scope subject matters not otherwise contemplated in the proposed standard, such as auditing complex accounting estimates under ISA 540 (Revised). We suggest the IAASB to make reference to the drafting of IFRS for SME which includes an option for entities to apply the recognition and measurement requirements of ISA 39 Financial Instruments: Recognition and Measurement in place of relevant requirements of the standard.

The fallback approach is only applicable to a matter uncovered during the audit which is among the narrow-scope subject matters defined by the ED.

We recognize that any such fallback approaches may be difficult to apply consistently in practice and may result in unintended consequences, and accordingly any such concessions will need to be carefully assessed by the IAASB to determine an appropriate response to challenges relating to transitioning from ED-ISA for LCE to ISAs or other auditing standards.

Institut der Wirtschaftspruefer in Deutschland e.V. (IDW)
Even though the LCE standard does not cover internal audit, an auditor should not automatically be unable to apply the LCE standard just because a matter is not covered in that standard. One way of dealing with this issue is to provide additional requirements in a separate section or “conditional modules” for such circumstances.

Malaysian Institute of Accountants
Hence in relation to paragraph 139, the planning considerations on whether the engagement can effectively and appropriately use the proposed standard from the outset are absolutely critical to avoid such situations.

We therefore suggest the IAASB to consider supplementary modules as a possible solution when an auditor unexpectedly encounters just one item of complexity in an LCE audit. Moving between standards should be a rare event. It would be helpful for the IAASB to indicate this within the LCE Standard so as to inform expectations, going forward.

New Zealand Auditing and Assurance Standards Board
The NZAuASB considers that more flexibility in the transitioning provision is needed to avoid limiting the usability of the proposed standard. For example, transition requirements that allowed auditors to top up requirements based on full ISAs for an isolated complex matter in the financial year where they were identified, with a requirement for reassessment of the LCE determination for the following financial year. In these limited circumstances, the auditors’ report should also be more flexible in
stating the basis of auditing standards being used. This is a more efficient process than having to go back and re-do audit
documentation and planning. Audit is, by nature, iterative and unexpected issues do arise.

5. Accounting Firms
Baker Tilly International
Baker Tilly comments: The project is about less complex entities but the ED is 110 pages plus 17 pages of supplemental
guidance, a 14 page glossary, and a 23 page supplemental guide on auditor reporting under the ISA for LCE. The IAASB has
also published a document mapping ISAs to the proposed ISA for LCE. Applying the ED would still be complex, require
additional explanation and discussion between the entity and the auditor and require more thought during the audit process than
if a building block approach was used for ISAs. Where an entity becomes more complex over time there remain identification (of
the complex issue) and application (what the audit team should do, communication with management, resulting inefficiencies)
difficulties in moving from the ISA for LCE to full ISAs and vice versa when an entity becomes less complex. If auditors of LCEs
perceive the ISA for LCE to bring more costs than benefits, and/or if providers of audit software/audit firms find it too
difficult/expensive to build an LCE audit template, then jurisdictions will continue to go their own way and the standard will fail in
its intended purpose to avoid fragmentation of audit practice.
If there is a building block approach to ISAs then these complexities fall away. The ISA for LCE need only address the audit
fundamentals, which can then be topped up. The explanatory memorandum appears to discount the building block/topping up
approach but does not explain why. We do not agree with the assertion that an auditor would then need to refer to the “topped
up” ISAs that were implemented because the audit profession is already experienced in applying only applicable standards in
the context of ethics, independence, reporting and audit. For example, an auditor already only implements ISA 600 if they are
auditing a group and already only implements ISA 540 if they are auditing a material judgment or estimate.

Duncan & Toplis Limited
It is important, as noted that clear guidance is included, at the local level, to ensure that the need for the transition is as rare as
possible. We believe that for single aspects of complexity, for example a single complex estimate, the requirements of the
applicable ISA should be allowed to be used, rather than a full transfer to purely using the full set of ISAs.

RSM International
We appreciate the challenge that supplementing ED-ISA for LCE with additional provisions from the ISAs may pose, particularly
when describing the basis upon which the audit has been conducted, but we request the IAASB to reconsider this aspect of the
proposed standard and permit supplemental provisions to be incorporated when circumstances require it rather than transitioning to ISAs.

7. Professional Accountancy and Other Professional Organizations
Accountancy Europe
We believe there will be practical challenges with regards to transition to ISAs. The potential need to change to full ISAs part way
through an audit should be relatively rare in practice yet should be addressed appropriately during engagement acceptance. The
ED requires a huge change in direction and efforts due to a single complexity encountered during the audit. We suggest that a
single or a few complex matters should not lead to transition immediately. Instead, auditors should be allowed to continue the
engagement with the LCE standard where auditor must still obtain sufficient appropriate audit evidence in accordance with
general requirements and additional guidance to be provided with a modular approach. In this approach there will be modules
including specific procedures for a more complex topic or area that could be “added on” where the underlying condition exists.

Chamber of Auditors of the Czech Republic
Response:
We suggest that a single or a few complex matters (mainly in relation to estimates) should not lead to transition immediately.
Instead, auditors should be allowed to continue the engagement with the LCE standard where auditor must still obtain sufficient
appropriate audit evidence in accordance with general requirements and additional guidance to be provided with a modular
approach. In this approach there will be modules including specific procedures for a more complex topic or area that could be
“added on” where needed.

CPA Australia
We are of the view that it would be preferable to allow auditors to directly reference back to the ISAs if complexity arises during
the audit, so that they can use ISA requirements for matters or transactions that are not included in the proposed standard.
Completing the steps in para. 139 of the proposed standard is very onerous and would discourage auditors from acknowledging
that increased complexity has arisen during the audit. Instead, we suggest that “topping-up” using the ISAs be permitted during
the audit if complexity arises. Nevertheless, for the following period after a “top-up” from the ISAs was necessary, the presumption could be that the ISAs be applied unless the complexity encountered was a documented one-off.

Institute of Certified Public Accountants of Cyprus

Response: We have reservations when it comes to the transition to/from ISAs – there seem to be practical challenges associated with this. One of the reasons that the qualitative criteria proposed to determine whether an entity can use this standard or not are perhaps not the most appropriate determinant factor to start with is the fact that if a matter or circumstance can be found during the audit that exhibits complexity then there will need to be transition to the ISAs to this respect. If a single complexity has been identified during the audit, the auditor should be able to make an exercise whether something would have changed in the audit cycle had she/he used the full ISAs. If not, then the standard should allow the auditor to continue the use of the ED-ISA for LCE without the need to transition to ISAs. To this respect, we propose that the IAASB develops guidance, e.g., consider the use of additional ‘modules’, in that if there is a single complex matter, this could be addressed within the ISA for LCE without the need for transitioning.

Institute of Chartered Accountants of Scotland

Response to Question 13 (a) and (b)
This is one of the key areas that needs to be properly addressed before the proposed standard can be finalised. It undoubtedly brings practical challenges but these in our view can be overcome. It should only be in rare and exceptional circumstances where such situations will arise, and audit quality must be at the forefront of the approach determined to deal with any such matters. Therefore, we would propose that it would depend on the significance of the matters identified as to whether there would need to be an immediate transition to use of the full ISAs during an audit engagement where fieldwork had already commenced. Rather, if the matters relate to one or a small number of complex elements (and depending on their pervasiveness and significance) then the option should be available to the auditor to be able to supplement the work required in those specific complexity areas with additional procedures that would be set out in specific modular add-ons or specific aspects of the relevant ISA(s). Such modules would need to be viewed as only to be applied in these rare and exceptional circumstances and not to be adopted on an ongoing basis. Ultimately, the auditor would need to consider as to whether application of such additional procedures would lead to them having sufficient and appropriate audit evidence.

Korean Institute of Certified Public Accountants

We ask the IAASB to reconsider if there is any circumstance where the ‘module’ approach (paragraph 138 of Explanatory Memorandum) can be inherently applied and if there is any way to include the requirement concerning complex modeling in the ISA for LCE (See the answer to Question 1(a)).

Malaysian Institute of Certified Public Accountants

Additionally, the IAASB may want to consider still allowing the use of this proposed ISA even if one new item of complexity is identified under certain prescribed conditions.

9. Individuals and Others

Cristian Munarriz

Response: I think the most complex issue is the existence of complex estimates arising subsequent to engagement acceptance or continuance. This issue may create significant complexities and practical difficulties. If complex estimates are not considered in the ISA for LCE, a recurrent issue may also be recurrent transitioning from ISA for LCE to ISAs and later from ISAs to ISA for LCE in consecutive years because of one-time or extraordinary complex estimates. For example, if the ISA for LCE had been effective in the FY 2020 audits most companies would have faced a few complex estimates arising from COVID-19 which will be of less complexity in subsequent years. Also one-time complex estimates like signing of equity settled stock options (where the complexity is generally on the grant date where fair value of stock options needs to be calculated but it is significantly less complex in subsequent years) or business combinations, especially if goodwill is amortized (assuming group audits are not excluded from ISA for LCE).
I think the most practical approach would be including separate requirements for complex estimates based on ISA 540 or making reference to ISA 540 requirements for complex estimates (auditors would need to refer to these requirements only if they have complex estimates and only for those complex estimates which it should be expected to be not more than a few, so it should not affect most audits while providing significant relief from audits of LCE which experience isolated complex estimates). Another option would be to make a brief reference to the need to apply enhanced procedures if a complex estimate is identified (clarifying that the existence of more than a few complex estimates is an indicator that the ISA for LCE is not appropriate), where examples of enhanced procedures may be included in an appendix to ISA for LCE or make reference to ISA 540 as supplemental guidance.
Rodoula Roussou
Response:
As discussed in question 1(a) the lack of flexibility and the prohibition to “top-up” will create challenges for transitioning to and from the ISAs for LCE, which is almost impossible to overcome. Unfortunately in the case of accounting estimates in an LCE, as mentioned in §132 of EM, will be quite common. These would be resolved if the “top-up” was permitted and the reference “…we conducted our audit in accordance with the ISA for LCE” was removed, since the level of assurance of an Audit of a Less-Complex Entity using the Standard under discussion is the same as in the ISAs. Also the lack of flexibility, in the cases that the entity meets the definition of a Less-Complex Entity in one year but not in the subsequent year, especially regarding the additional documentation needed in opening balances, is unjustified since both standards provide the same assurance.

Specific Questions\Section 4F – Other Matters\Question 13 - Views on transitioning\Question 13(a)
Are there any aspects of the proposed standard that may create challenges for transitioning to the ISAs\a. Solutions Suggested\2) Authority

5. Accounting Firms

KPMG IFRG Limited
Finally, we highlight that the broadening of the scope of the standard, as the project has progressed, to include entities beyond those which were originally envisaged as falling within the scope of the standard, from the small and clearly not complex, to those further along the spectrum of complexity, i.e. which are less complex [emphasis added] but still may contain elements of complexity, and may not be small at all, may, as a result, also give rise to an increased likelihood of situations arising that require the auditor to transition out of the standard, to use the full-scope ISAs. We suggest, therefore, that the IAASB consider further restricting the intended use of the standard, within the authority section, to require the auditor to explicitly consider other potential sources of complexity in the audit, in addition to those already described therein by the IAASB, and/or to consider the establishment of size thresholds. Refer to our response to Question 3c. We believe this would substantially reduce the likelihood that a transition to the full-scope ISAs would be necessary.

MNP LLP
We believe there will be challenges for transitioning to the ISAs from ISA for LCE. We believe that based on the current drafting of the authority of the standard, audit teams will often encounter transactions (e.g., business combinations, transactions outside the normal course of business that involve estimates) that would prohibit the use of the ISA for LCE standard in a subsequent audit period. These transactions may not occur until near period-end, after planning has already been completed. This would increase time pressure for the audit team to transition from ISAs for LCE to ISAs. The audit team would need to re-establish the terms of the engagement, reissue communications with those charged with governance, and “restart” some of their planning activities, which could impact an entity’s perception of the audit process and the auditing standards. Additionally, there may be incremental procedures that need to be performed over prior year balances or transactions. We recommend that ISA for LCE be expanded and clarified such that less entities would be scoped out by these type of one-time transactions.

Nexia Smith and Williamson
Even when auditing a less complex entity, an issue may arise during the audit that management had not informed the auditor of at the planning stage. The Proposed Standard would require the auditor to transition to the ISAs if such an issue was “complex”. We reiterate the point made in our answer to question 4, that we believe that one “complex” factor should not necessarily mean that the entity is outside the scope of the Proposed Standard. This principle should be extended to the transition requirements, such that a single “complex” issue discovered later in the audit should not automatically mean transitioning to the ISAs. Clearly, as with any audit, the auditor should assess the issue and consider whether changes to risk assessments, materiality etc are required and plan relevant additional work accordingly.

PriceWaterhouseCoopers
Much of the uncertainty around “transition” stems, in our view, from the subjectivity inherent within the Authority section. The potential for larger entities that may become subject to complexity in subsequent periods, or even during a period, raises inevitable questions as to how to address those circumstances. With a more clearly defined narrower scope, and a standard that is more clearly differentiated from the ISAs, the risk of audits being commenced using the ISA for LCE and subsequently judged to no longer meet the criteria for use, diminishes, reducing the need for extensive transition guidance.
Such an approach also reduces the likelihood of audits flipping between the ISA for LCE and ISAs in subsequent years, again helping to eliminate challenges and questions that arise around the potential impact under a comparative financial statements model. We also note that some territories with statutory audit exemption thresholds also introduce time-related transitional rules into these exemptions i.e., that the criteria for exemption are met in both the current and preceding period. While many of the transitional issues should, in our view, be eliminated by a narrower Authority, consideration could be given to introducing similar criteria to address the separate issue of flipping back and forth between the applicable standard(s) in successive periods.

7. Professional Accountancy and Other Professional Organizations

European Federation of Accountants and Auditors for SMEs

We have one concern. A single new element of complexity may cause an entity to no longer be classified as LCE, causing the auditor to have to transition to the full site of ISAs. This will create a burden that may be difficult to explain to an audited entity. Our suggestion above to lend more weight to size criteria might avoid the need for transition in these circumstances.

Malaysian Institute of Certified Public Accountants

Consequently, the definition of “Less Complex Entities” needs to be extremely comprehensive and robust to limit such uncertainties. Otherwise as explained, practitioners would rather continue to adopt the extant ISAs instead of taking the risk of reversing the whole LCE procedures to full-ISA procedures where one single complex item is identified at the middle of the audit process.

REA Auditores

Our concern is that a single new element of complexity may cause an entity to no longer be classified as LCE, causing the auditor to have to transition to the full site of ISAs. This will create a burden that may be difficult to explain to an audited entity. Our suggestion above to lend more weight to size criteria might avoid the need for transition in these circumstances.

Specific Questions\Section 4F – Other Matters\Question 13 - Views on transitioning\Question 13(a) Are there any aspects of the proposed standard that may create challenges for transitioning to the ISAs? Solutions Suggested:3) Other Comments

5. Accounting Firms

SRA

1.(a) Par. 16 of the Explanatory Memorandum (E.M.) states, that the IAASB has chosen to develop a separate standard to focus on audits of LCE’s. We note that the 2019 Discussion Paper “Audits of Less Complex Entities” also mentioned the option to revise the ISA’s to address scalability more explicitly and make the auditor’s work effort clearer.

In our September 10, 2019 comment letter on the Discussion Paper, we voiced a strong preference for the latter option, which would lead to one integrated set of ISA’s. We regret that the IAASB has chosen the option of a stand-alone standard for LCE’s, and we regret that the E.M. does not provide any arguments for this essential choice.

In our view there are a number of strong arguments against the choice for a stand-alone standard for LCE’s:

Two different sets of standards can be regarded by stakeholders as leading to an audit with a difference in status: an A-Audit and a B-Audit. Using two sets of standards as well as the effects on the status of these different audits because of that, could seriously increase the expectation gap between users and auditors and diminishes the value of the audit.

Two different sets of standards will exist while the framework for these sets is uniform. Any update of standards will be much more complex for all parties involved in the process in the case of two different sets of standards. For example consultation will be made more complex without reason. Updating two sets bears also the risk of inconsistency between both sets.

Use of a stand-alone set for LCE’s will also lead to transition problems when moving from one set to the other. In an audit of group financial statements group auditors may, in order to achieve an efficient audit, have to deal with 2 different sets of standards. This may lead to inconsistencies in the group-audit.

From an educational perspective it is best to have one consistent set of standards, based on one framework.

As a consequence, using ISA for LCE according to the draft exposure will be too complicated in practice. And as a result there is a serious risk that the use of the standard will be very limited. The aim of the IAASB in developing this standard will then not be reached.
We get the impression that the proposed ISA for LCE has been derived from the present ISA’s via a top-down approach. In our view, requirements for all audits should be based on a bottom-up approach, thereby making a strong base on which more detailed requirements can be built. These basic requirements could partly be principle-based.

Following this approach a distinction could be made within the present ISA’s between basic requirements for all audits (including LCE’s) and other requirements, applicable to complex entities. Requirements applicable to all audits could be named key or basic requirements. Of course, it is essential to have a clear wording of these key or basic requirements.

In an audit of group financial statements, the suggested approach will lead to an efficient audit of a combination of complex and less complex entities. The group auditor should be responsible for deciding the audit approach of each entity.

Based on the above arguments we urge the IAASB to seriously reconsider the approach chosen of developing a stand-alone standard for LCE’s. In our view, an integrated set of standards (the ISA’s) leads in the long run to a much more effective use of the standards and contributes to an effective process of standard setting.

1.(b) The IAASB proposes to name the stand-alone standard: ISA for LCE’s. The main argument provided in the E.M. is, that the name could be distinguished from the ISA’s. The full name proposed is: International Standard on Auditing (ISA) for Audits of Financial Statements of Less Complex Entities (ISA for LCE). In our view this name suggests that the new standard is part of the ISA’s, which is not intended by the IAASB. As explained under 1.(a) above, we feel the best approach would be to integrate the requirements for LCE’s in the present ISA’s.

However, if the IAASB decides to issue a stand-alone standard for LCE’s, such a standard should - in our view - be part of the existing ISA’s in newly created series. Arguments for this approach are in our view provided in Par. 75 of the E.M., which states that all requirements of the (existing) ISA’s which are relevant to an LCE, are included in the proposed standard. It is also vitally important that the LCE-audit is aimed at achieving reasonable assurance, as is the case in an ISA audit.

As a consequence, there is no reason to make a distinction in case of an LCE audit (e.g. in the engagement letter and in reporting) between an audit in accordance with ISA’s and in accordance with the stand-alone standard, as all relevant requirements are complied with following the LCE-standard.

We conclude that a separate name for the proposed standard is unnecessary, and bears the risk to contribute to confusion with stakeholders about the status of an LCE-audit; the impression on the basis of e.g. the engagement letter and reporting could well be that a B-audit has been executed.

13. If the comments under 1.(a) and 1.(b) above are followed, transition problems will be avoided.

7. Professional Accountancy and Other Professional Organizations
Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants

Transition and the standalone nature of the standard. We are supportive of presenting ISA for LCEs in a separate standard. However, we have heard mixed feedback on the strict standalone requirement of using the standard. The feedback from practitioners who audit LCEs is that encountering a single complex issue that was not identified during engagement acceptance and continuance or planning may not be as rare as contemplated in the ED. The prospect of having to go back and perform a full ISA audit if an isolated issue is discovered will be a deterrent to practitioners who may otherwise adopt the standard. An example frequently raised by our stakeholders is in respect of accounting estimates with many suggesting that the standard should provide some flexibility in this area as this will allow a significantly larger pool of entities to be scoped in the standard and in return making its adoption a lot more attractive for firms.

In addition, stakeholders have pointed out that, in jurisdictions where the practitioners are well versed in the full ISA suite, it is difficult for a practitioner to identify where they may be applying their experience of the full ISAs in performing an ISA for LCE which may result in an inadvertent “uplifting” of procedures. This would also potentially result in issues where regulators form different judgments about what procedures should have been applied.
While it may be that LCE audit specialisations develop and are addressed by the educational programs of professional bodies, initially, the majority of auditors using the standard will have a good knowledge of the full suite of ISAs. We believe that a practical solution which would allow an auditor to ‘uplift’ procedures when an isolated ‘complex’ issue that isn’t specifically addressed by the standard would present an approach that is more easily able to be implemented. This could be accompanied by a requirement for the auditor to reassess the audit of the following engagement period and to determine whether it should continue to be performed under ISA for LCEs going forward. This approach would necessitate some guidance on the nature and extent of issues that would still trigger the need to revert to a full ISA audit.

**Specific Questions\Section 4F – Other Matters\Question 13 - Views on transitioning\Question 13(a)**

**Are there any aspects of the proposed standard that may create challenges for transitioning to the ISAs\b. Different Standard for Different Periods\1) Reporting**

4. National Auditing Standard Setters
   Canadian Auditing and Assurance Standards Board

Users may be confused by reporting situations when the ISA for LCE is used for one year and the ISAs for another.

5. Accounting Firms
   Grant Thornton International Limited

For certain of the characteristics used to determine whether ED-ISA for LCE is appropriate, changes to those characteristics that may result in it no longer being appropriate to apply ED-ISA are likely to be known well in advance because of the time it takes for such changes to come to fruition. Therefore, transition between ED-ISA for LCE and the ISAs will likely be known before the audit commences. For example, an entity is unlikely to change its organisational structure overnight or enter into complex ownership arrangements without the knowledge of its auditors. In these situations, in addition to maintaining the two methodologies, as noted above, auditors will need guidance on how the auditor’s report will be affected when the audit is performed under ED-ISA for LCE in one year and the ISAs in the following year.

KPMG IFRG Limited

We also highlight that transition could give rise to reporting challenges if the audit opinion for each year needs to refer to different auditing standards, for example, we believe an Other Matter paragraph may be necessary to provide explanation to users. The IAASB recognises that such a situation could arise and plans to issue guidance and illustrative reports to address these circumstances as part of implementation material.

7. Professional Accountancy and Other Professional Organizations
   ASSIREVI

In addition, we draw your attention to the treatment of transitioning in the auditor’s report. To this end, paragraph 140 of the Explanatory Memorandum states:

“The auditor’s report should also clearly indicate which auditing standards are used for the period under audit. Where the auditor’s report refers to a previous period under audit, for example due to circumstances relevant under ISA 710.35 the auditing standards used for the prior period should also be clearly stated.”

If the aim of disclosing the auditing standards used in the auditor’s report is to ensure greater transparency about the audit engagement, it would seem appropriate that the proposed standard clarify that, in the case of transitioning from one set of standards to another from one year to the next, the auditor’s report should explain the reason behind such transition.

Chamber of Financial Auditors of Romania

Reporting: as mentioned in paragraph 140 there will be cases in practice where current financial statements will be audited under ISA for LCE and previous financial statements had been audited under ISA. We consider the difference in applying ISA (ISA or ISA for LCE) will not diminish the auditor responsibility and nor the TCWG’s responsibilities – this statement or similar shall be included in the auditor report and implementation material that will be provided alongside the release of final ISA for LCE also.
Institute for the Accountancy Profession in Sweden (FAR)
If prior year was audited according to ISA for LCE and current period according to ISA, will the auditor have to comment on this as “other information” as is expected when prior year was not subject to audit or if that audit was performed by another auditor? This should be addressed in the ISAs as well.

Institute of Chartered Accountants of Namibia
Response:
Where the predecessor auditor uses full ISA and the new auditor uses ISA for LCE or vice versa, the following may create a challenge:
The wording in the audit report to describe the change to the other standard, the reason, and the potential impacts on the audit/audit report of the change, which should be limited due to the same level of assurance obtained.

Instituto dos Auditores Independentes do Brasil
To enhance transparency, the inclusion of a paragraph to highlight the transition from one period to another might be beneficial.

Malta Institute of Accountants
Response: One challenge for which clarity is being sought from our end is when transitioning from one year to another between one framework and another or even during the process of an audit (when one needs to switch again to the full ISAs). What are the implications on transitioning on prior opinions? We feel that there may be a challenge convincing users that the current year opinion issued versus that of the prior year give the same level of assurance.

Nordic Federation of Public Accountants
If prior year was audited according to ISA for LCE and current period according to ISA, will the auditor have to comment on this as “other information” as is expected according to the ISAs when prior year was not subject to audit or if that audit was performed by another auditor? This should be addressed in the ISAs as well.

South African Institute of Professional Accountants
We do however recognise that this may occur in practice and that organisations change over the years as their business evolve and may later on be classified as a complex entity and this standard will no longer be applicable for such organizations. Under these circumstances guidance should be provided to the auditor with specific reference to the audit report where the previous year were reported on under ISA for LCE and the current year will be reported on under ISA. The impact on opening balances and the report should be considered and guidance provided as to how to apply this change.

Specific Questions
Section 4F – Other Matters
Question 13 - Views on transitioning
Question 13(a)
Are there any aspects of the proposed standard that may create challenges for transitioning to the ISAs?
b. Different Standard for Different Periods
2) Opening Balances

3. Regulators and Audit Oversight Authorities
Committee of European Auditing Oversight Bodies
Further while some detail is provided in the explanatory memorandum on transitioning between the ISA for LCE and the ISAs, this should be developed further to provide clear information to auditors on the work required of them in this situation. In particular, in case of a change in the auditor by the audited entity when the new auditor decides to move to the full set of ISAs instead of applying the ISA for LCE. It is not clear what action is required in the audit of opening balances.

4. National Auditing Standard Setters
Public Accountants and Auditors Board Zimbabwe
Response: There is need to provide more guidance on what will need to be considered from transitioning from ISA for LCE from prior year to full ISA in the current year. Issue that may be considered include a. can an auditor rely on the opening balance that were audited using a different framework,

5. Accounting Firms
Mazars
Further, will the opening balance need to be (re)audited according to ISA as well, as required in ISA 510?
7. Professional Accountancy and Other Professional Organizations

Institute for the Accountancy Profession in Sweden (FAR)
Further, will the opening balance need to be (re)audited according to ISA as well, as required in ISA 510?

Nordic Federation of Public Accountants
Further, will the opening balance need to be (re)audited according to ISA as well, as required in ISA 510?

South African Institute of Professional Accountants
The impact on opening balances and the report should be considered and guidance provided as to how to apply this change.

Specific Questions\Section 4F – Other Matters\Question 13 - Views on transitioning\Question 13(a)
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7. Professional Accountancy and Other Professional Organizations

Institute of Chartered Accountants of Namibia
Response:
Where the predecessor auditor uses full ISA and the new auditor uses ISA for LCE or vice versa, the following may create a challenge:

Potential professional impact (ie. courtesy towards predecessor auditor).

Korean Institute of Certified Public Accountants
It is also not clear if there is any required procedure to perform in case the current auditor in an initial audit engagement makes different judgement from the one made by the predecessor auditor, and when such transition is required in a continuing audit engagement given that characteristics of an entity don’t change overnight.

Specific Questions\Section 4F – Other Matters\Question 13 - Views on transitioning\Question 13(a)
Are there any aspects of the proposed standard that may create challenges for transitioning to the ISAs?

3. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies
Another concern that we would like to highlight is that while the ISA for LCE requires the auditor to consider whether the use of the ISA for LCE continues to be appropriate, it does not state what action is required where the auditor concludes that use of the ISA for LCE is no longer appropriate.

Independent Regulatory Board for Auditors (IRBA)
The proposed standard is unclear on the procedures/steps that the auditor would need to follow and consider.

Irish Auditing and Accounting Supervisory Authority
While the standard requires the auditor to consider whether the use of the ISA for LCE continues to be appropriate, it does not state what action is required where the auditor concludes that it is not.

Swedish Inspectorate of Auditors
The SIA considers it important that the standard clearly states what an auditor is required to do when an audit, due to changes in conditions for the audit, must do a transition from ISA for LCE to ISA. The SIA encourages clarification on this topic.

4. National Auditing Standard Setters

Compagnie Nationale des Commissaires aux Comptes and Conseil Supérieur de l'Ordre des Experts-Comptables
However, we believe that the IAASB needs to do more education and clearly explain the differences between (1) the full set of ISAs and (2) the ED-ISA for LCE. A mapping document between the full set of ISAs and ED-ISA for LCE already exists but it is difficult to see the key differences in principles. To obtain the buy-in of the LCE project, we believe that the IAASB should provide an overview of the main differences between an audit conducted in accordance with (1) the full set of ISAs and (2) with the ED-ISA for LCE.
In our opinion, this analysis should be built around the following two objectives: (1) presentation of the key differences between an audit “LCE” versus an audit in full ISAs and (2) explanation of what additional work needs to be done to transition from an audit “LCE” to an audit “full ISA”.

Please refer to our response to question paragraph 7(a).

Institut der Wirtschaftspruefer in Deutschland e.V. (IDW)
Furthermore, requirements and guidance need to be given as to what auditors need to do when such circumstances not covered do arise, such as when an entity has a single individual as an internal auditor or does issue other information.

Institute of Chartered Accountants of India
Paragraph 139 of Section 4F of Explanatory Memorandum to ED-ISA for LCE mentions that if it is determined that ED-ISA for LCE is no longer appropriate for use in an audit engagement, to transition the auditor would broadly need to take various actions given in paragraph 139. Such actions inter alia include the following actions:

- Design and perform additional procedures necessary to comply with all applicable ISA requirements (or requirements of other applicable auditing standards), with additional documentation as appropriate.
- Undertake other actions as considered necessary to meet the objectives of the ISAs (or requirements of other applicable auditing standards) or to meet the obligations in terms of the firm’s policies or procedures.

In our view, clarity is required on how the auditor will determine which additional procedures to be performed and which other actions to be undertaken by auditor.

5. Accounting Firms
KPMG IFRG Limited

The IAASB acknowledges that transition could be challenging, however, it does not discuss solutions in more detail, noting only that it envisages that such transition should be rare. Given the challenges involved, we recommend that the IAASB consider the implications in more depth and provide clear guidance to auditors regarding such a transition.

We recognise that the IAASB intends this to be a standalone standard, and that an audit performed in accordance with this standard is a distinct level of service, identified specifically as such in the auditor’s report. Accordingly, we acknowledge the IAASB’s rationale in not permitting auditors to “top up” this LCE ISA if circumstances change in respect of whether an entity meets the criteria to be an LCE (i.e., to perform additional procedures, in discrete areas, by reference to the full-scope ISAs, whilst still remaining in, and reporting in accordance with, the LCE ISA) and instead, in such cases, there is a requirement to transition in entirety to the full-scope ISAs instead.

We also recognise that the detailed material on the authority of the standard is intended to ensure that engagement teams make the right decision upfront in terms of whether they are able to use this standard, with an “if in doubt, you are out” principle being applied. It is considered unlikely by the IAASB that, having made an initial decision to use the standard, teams would need to transition out of this to full-scope ISAs to perform their audit. The exception to this, noted by the Board, is in relation to estimates, e.g., the entity may enter into new transactions that result in complex accounting estimates.

We understand the intention that, in the event that a transition needs to take place, the engagement team needs to re-establish terms of engagement, evaluate whether sufficient work has been performed and design and perform additional procedures to comply with all applicable requirements of the full-scope ISAs.

However, we are concerned that it is unclear as to what the transition work-effort would actually be, and how this would be executed. We believe that the IAASB does not intend for auditors that have transitioned to the full-scope ISAs to perform specific, additional procedures in the discrete area that has given rise to the need for the transition, but rather would require auditors to reconsider and possibly perform additional procedures across the audit as a whole, including in respect of other areas of the audit that have not driven the increased complexity that underpins the need for transition. Since the requirements of the LCE ISA and the full-scope ISAs are closely aligned, but the IAASB has removed much of the application material in developing the LCE ISA, auditors would have applied these requirements as they considered appropriate when performing the audit in accordance with the LCE ISA and, therefore, we assume transition would involve re-considering all work performed with reference to the full-scope ISAs application material to fulfil the requirements in a more prescriptive way. We believe such an exercise would be extremely challenging, in practice.

Mazars
There may be circumstances where a client ordinarily audited using the LCE standards, by virtue of a one-off “complex” transaction may fall outside of the scope of the LCE standards in one particular year. How would the transition to ISA from LCE and back be handled?
Transitioning between ISA for LCE and ISA will probably be relatively rare. When transitioning occur, there are aspects that could be added as examples:

**PKF International Limited**

We are concerned that there is insufficient requirements and guidance on how to apply the Authority in the scenario where there are relevant changes to the circumstances or conditions of an audit engagement subsequent to the performance initial engagement activities including the acceptance or continuance procedures. Specifically, we are concerned that the user of the standard is not provided with any guidance in the Authority as to the implications and consequent requirements if subsequent changes in conditions would necessitate the user to transition the engagement from the ED-ISA for LCE to the full ISAs.

In our view Section A would benefit from the inclusion of enhanced guidance and requirements on how the engagement team should consider and respond to changes in circumstances and conditions which are identified subsequent to the performance of engagement acceptance or continuance procedures, including specific guidance on the need to transition to the ISAs and how the auditor should approach the transition.

We note that the Explanatory Memorandum to the ED-ISA for LCE includes references to the term “transition” in the context of the circumstances which would cause an auditor to need to switch from the proposed standard to the full ISAs. In our view, the main body of the proposed standard could incorporate similar wording as guidance or preferably as an explicit requirement.

**Response:**
Please see Question 3(c) above for our comments on Transitioning to the ISAs.

**7. Professional Accountancy and Other Professional Organizations**

**CPA Australia**

A checklist of additional procedures needed if a transition is required should be considered.

**Federation of Accounting Professions of Thailand**

The confusions/complications between the audits of the same entity when the status of LCE may change to non-LCE and back to LCE over years. IAASB should consider providing more detailed guidance of when there are changes in the status of LCE, as it will cause a burden and difficulty on both entity being audited and the auditor.

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

See 3(b) above.

Currently, the exposure draft does not address in details or provide guidance for the auditor in case where the auditor plans to apply this ISA for LCE at the beginning of the year and due to changes in the circumstances, resulting in the ISA for LCE not being allowed by the year-end or vice versa. Examples of the topics to be covered may include how the auditor should address on scope change, additional work to be done for the comparative financial data, special treatments in the audit report.

**Institute of Indonesian Chartered Accountants (IAI)**

In cases where the entity is no longer exhibit the qualitative characteristics of an LCE as defined in the standard during the period, questions arise as to how and when the auditors should transition from using this standalone standard into ISAs. For example, based on information gather during the client acceptance process, auditors may conclude that the entity exhibits qualitative characteristics of an LCE; yet if the entity acquired another business near year-end (resulting in the application of more complex accounting estimates, and the necessity for having a group audit), the conclusion may have changed as the entity no longer exhibit the qualitative characteristics of an LCE. Further clarification and guidance might be necessary.

**Specific Questions|Section 4F – Other Matters|Question 13 - Views on transitioning|Question 13(a) Are there any aspects of the proposed standard that may create challenges for transitioning to the ISAs? |d. Scope of ISA for LCE|1) Challenges in Assessment**

**3. Regulators and Audit Oversight Authorities**

**Botswana Accountancy Oversight Authority**

The assessment of the criteria in deciding whether the ISA for LCEs can be applied may create challenges, as such as more comprehensive guidelines may be availed to assist in this regard.
Independent Regulatory Board for Auditors (IRBA)
The auditor is required to determine whether the proposed standard is appropriate for the audit engagement; and if it is found that it is not appropriate because of matters of complexity arising during the audit, then a transition to the ISAs is required. It is unclear how an auditor will be able to identify such situations without an understanding of the ISAs if the auditor has focused his/her training on and performed only LCE audits.

4. National Auditing Standard Setters

Federación Argentina de Consejos Profesionales de Cs. Económicas

Answer: There are no challenges other than those described. We believe that the greatest challenge is determining that the ISA for LCE is appropriate for the audit engagement, in conjunction with the application of professional judgment in planning and executing the audit.

Japanese Institute of Certified Public Accountants

The challenge may be that it is unclear under what circumstances to transition to the ISAs.

5. Accounting Firms

PKF International Limited

We are concerned that there is insufficient requirements and guidance on how to apply the Authority in the scenario where there are relevant changes to the circumstances or conditions of an audit engagement subsequent to the performance initial engagement activities including the acceptance or continuance procedures.

Specific Questions\Section 4F – Other Matters\Question 13 - Views on transitioning\Question 13(a)
Are there any aspects of the proposed standard that may create challenges for transitioning to the ISAs\d. Scope of ISA for LCE\2) Clarification Needed on Authority

4. National Auditing Standard Setters

Institut der Wirtschaftspruefer in Deutschland e.V. (IDW)

In addition, as we note in our response to Question 3 c) above, clarification is needed in relation to circumstances when a matter arises that is not covered by the LCE standard. These circumstances need to be made explicit in the criteria (such as not having any internal audit as defined in ISA 610).

Malaysian Institute of Accountants

Response: The proposed standard may not have addressed all scenarios or circumstances where a transitioning may or may not be required from the proposed LCE standard to that of the ISAs. While it is explicitly stated that “accounting estimates” may be one exception where the auditor may not be aware at the time of client acceptance or continuance which may preclude the use of the LCE standard, there may be other circumstances such as more complex arrangements entered into, or use of digital tools or acquisition of digital assets (crypto currency, or other automation processes) which may not have been reasonably identified at the initial stage. This is more so as businesses increase their digital transformation footprint, which may be an area of concern that may need more clarity and guidance. Unless these matters have been envisaged by the IAASB to then mean the engagement is to be excluded from using the proposed standard, it may lead to inconsistency of treatment.

7. Professional Accountancy and Other Professional Organizations

Malaysian Institute of Certified Public Accountants

Continuing digitalisation and automation, decentralisation and outsourcing including the use of shared service centres will be the way forward for businesses. It is unclear how these trends will impact the categorisation of entities as an LCE under this standard and more guidance should be provided to prevent inconsistent treatment and approach in practice.

Specific Questions\Section 4F – Other Matters\Question 13 - Views on transitioning\Question 13(a)
Are there any aspects of the proposed standard that may create challenges for transitioning to the ISAs\e. Too Onerous

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Audit cost disputes between the auditor and the audit client.
Time constraints.

4. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

AUASB Response:
Refer to paragraph 11(a) and 11(b) of the attached covering letter.
Australia adopts the full suite of ISAs and, in general, Australian practitioners are highly capable and competent when applying the current full suite of auditing standards. However, the current design of the proposed ED-ISA for LCE Standard is expected to be applied as a standalone pronouncement. This is a difficult concept to apply, and it is not really practicable for the core group of audit practitioners who already apply the ISAs to ‘park’ their inherent knowledge of the suite of ISAs when undertaking a reasonable assurance engagement. We expect it would be challenging for practitioners to use this standard as a standalone product as the IAASB currently intend, and that such an explicit demarcation between a standalone LCE standard and the full suite of ISAs is problematic, with greater interaction and transitional arrangements required.

While the IAASB may not expect transitioning between the proposed LCE standard and the full suite of ISAs to occur frequently, Australian stakeholders took the view this scenario may often occur, considering the judgement involved in applying the qualitative characteristics in deciding to apply the standard particularly with reference to new engagements. Our AUASB stakeholders considered that transitioning to the full suite of ISAs mid-way through an engagement would be an onerous task, and consequently practitioners may opt to not use the standard in the first place. The AUASB considers that more flexibility in the transitioning provisions of the proposed ED-ISA for LCE Standard is necessary to avoid this being a barrier for practitioners to use the proposed standard. For example, in scenarios where an LCE audit has a one-off complex matter in a particular reporting period, it’s logical to refer to the more detailed requirements within a specific relevant ISA and ‘top-up’ the audit requirements for such an engagement, rather than having to start that audit again using the full suite of ISAs. This could also apply to more than one complex matter triggering reversion to specific ISAs.

The AUASB is also concerned that transitioning from the LCE standard to the full suite of ISAs is problematic in terms of time, cost and expertise and may have the unintended consequence of deterring auditors’ use of the standard.

Canadian Auditing and Assurance Standards Board

When transitioning occurs, considering the matters in paragraph 139 of the IAASB EM, the time and cost for both management and the practitioner may be onerous, for example, re-establishing terms of reference, reissuing communications with those charged with governance and considering additional procedures on opening balances. This may deter practitioners from using the standard.

Indonesian Institute of Certified Public Accountants (IAPI)

Response: Section 136 – 139 prohibits the use of ED-ISA for LCE when certain circumstances arise during the audit, e.g., complex estimates. As there is no ability to do top-up procedures by referring to the ISA, the auditors will have to abandon the use of ED-ISA for LCE mid-way during the audit and refer back to the use of ISA. This would create additional time and costs to adjust the overall audit process including the audit documentation in order to comply with ISA. There might be challenges to recoup any costs to switch from ED-ISA for LCE to ISA when, e.g., a complex transaction is executed post conclusion made to use ED-ISA for LCE. This situation might deter and prevent wider use of the ED-ISA for LCE among the practitioners for fear of incurring more time as a result of a change from the use of ED-ISA for LCE to ISA during the year, especially if there is no significant efficiency arising from the use of the ED-ISA for LCE.

Malaysian Institute of Accountants

Further, the transitioning requirements for the auditors to existing ISA as part of the discovery process per paragraph 139 appear onerous and may create client relationship issues including the risk of missing compliance or statutory deadlines due to audit rework or “top-up”.

New Zealand Auditing and Assurance Standards Board

Transitoning to the full ISAs mid-way through an audit would be an onerous task, particularly if the audit is almost complete.

Royal Netherlands Institute of Chartered Accountants (NBA)

Response: It is cumbersome when an auditor needs to transition to the ISAs if there is a single complexity in an audit. This creates a burden and might be difficult to explain to an audited entity.
5. Accounting Firms

HLB International

We believe the provisions described in paragraph 139 would be punitive to a practitioner and result in many practitioners electing to not utilize ED-ISA for LCE as the auditor would effectively need to start over in their audit work and documentation. We do not believe support materials would sufficiently assist in addressing these challenges.

7. Professional Accountancy and Other Professional Organizations

CPA Australia

Whilst we support the concept of ‘if in doubt, you’re out’ as a pragmatic approach for making the determination whether the LCE standard is appropriate for an audit engagement for new and recurring engagements, we question the practicality of applying that approach once the audit has commenced. We caution that transitioning to the ISAs during an audit may lead to additional complexity and confusion for both the auditor and their clients. If auditors need to transition to applying the ISAs during an audit, then they may need to redo audit procedures, or at a minimum, amend their documentation to ensure that it addresses all of the ISAs. This may be impractical or unrealistic given time and resourcing constraints.

Korean Institute of Certified Public Accountants

Transitioning from the ISA for LCE to ISAs in the middle of an audit may make it difficult to identify additional procedures that should be performed as a result of such transition, and create significant pressure on auditors. In particular, determination to transition to the ISAs in the later stage of an audit may make it difficult to complete the audit in a timely manner.

Union of Chambers of Certified Public Accountants of Turkey (TURMOB)

Response:

Transitioning would be exceedingly difficult in practice for a number of reasons. First, converting to ISAs in an engagement would be overdoing the audit since the two sets of standards are separate. Second, the auditor may have the team capacity to conduct an ISA audit. Therefore, this transition should be an exception where the continued use of LCE standards significantly hinders the ability of the auditor to obtain reasonable assurance.

Specific Questions\Section 4F – Other Matters\Question 13 - Views on transitioning\Question 13(a)

Are there any aspects of the proposed standard that may create challenges for transitioning to the ISAs?

5. Accounting Firms

BDO International

It may not be practical for engagement teams to ‘switch over’ to a full ISA audit mid-way through the engagement as that may require switching to another automated auditing tool where the full ISA methodology is housed. As relevant ISA requirements are virtually the same in the full suite of ISAs and the ISA for LCE, it is not a productive use of time to replicate or move documentation from a LCE automated tool to the ‘full ISA’ version.

Grant Thornton International Limited

The Authority to use ED-ISA for LCE is governed by, amongst other things, qualitative characteristics that pertain to the entity itself and to the financial information of the entity. The application of these qualitative characteristics will be the primary driver for the need to transition into and out of the standard. At present, it is unclear what the frequency of such transition will be, but it is not uncommon for entities to enter into financing arrangements that inadvertently result in complex accounting estimates that would prohibit the use of ED-ISA for LCE, at minimum for as long as the financial arrangement was in existence. As a result, it would be incumbent on all firms to develop and maintain methodologies for audits under both ED-ISA for LCE and under the ISAs.

For certain of the characteristics used to determine whether ED-ISA for LCE is appropriate, changes to those characteristics that may result in it no longer being appropriate to apply ED-ISA are likely to be known well in advance because of the time it takes for such changes to come to fruition. Therefore, transition between ED-ISA for LCE and the ISAs will likely be known before the audit commences. For example, an entity is unlikely to change its organisational structure overnight or enter into complex ownership arrangements without the knowledge of its auditors. In these situations, in addition to maintaining the two methodologies, as noted above, auditors will need guidance on how the auditor’s report will be affected when the audit is performed under ED-ISA for LCE in one year and the ISAs in the following year.

The other aspect of transitioning into and out of the ED-ISA for LCE, is when that transition has to occur during the audit either because of facts unknown to the auditor when the decision was made to use ED-ISA for LCE or because, for example, the entity enters into a transaction during the period that results in an accounting estimate that is subject to a high degree of estimation
uncertainty. In these situations, the audit will have commenced using the methodology for the audit of a less complex entity but will need to be completed under the methodology for the ISAs. Many firms use documentation tools that are tailored to the methodology selected at the beginning of the engagement, so such a change of methodologies ‘mid-audit’ may prove to be more challenging than simply performing the extra audit procedures required under the ISAs.

Given, at present it is unclear what ED-ISA for LCE is driving the auditor to do differently, it is possible that the cost of maintaining two separate methodologies and, where necessary, the cost of transitioning between standards during the audit may outweigh the benefits.

**MHA Monahans**

The main challenge will be getting the audit methodology in place and providing training to staff. Initially we envisage a period of getting used to the two sets of auditing standards, the existing ISAs and the new standard for LCE.

**Price Bailey LLP**

Response: This will depend largely on how the software will be able to cope with transitioning. It should be possible. However based on some software which we are aware of, this is likely to be more difficult to implement. Needs to be a wider discussion with a number of alternative well established software providers to look at the practical implications of this.

**RSM International**

Response: We note the provisions of Section 4F on transitioning to ISAs when a matter arises which may render it inappropriate to use the ED-ISA for LCE. We appreciate that, in gaining a full understanding of the client at acceptance/continuation, an auditor should be able to determine whether there any aspects of that client which could scope the audit out of the ED-ISA for LCE.

However, circumstances change and new information may come to light at a later stage in the audit which means that the entity is more complex than first thought. In particular, acceptance, planning and risk assessment are often initially performed well in advance of the balance sheet date. Therefore, a complex accounting transaction late in the financial reporting period may result in an entity having to change its auditing framework when audit work is well advanced.

In these circumstances, having to transition to ISAs in full seems unduly harsh, particularly when, where an audit file is maintained in a software package, the whole file may need to be started from scratch. In addition, this may have significant implications for meeting reporting deadlines.

The need to re-engage with the client and renegotiate fees for the complete audit rather than just in respect of the one issue that has arisen may be particularly problematic for client relations. In addition, auditors may be tempted to make inappropriate judgments about the seriousness of a matter simply to avoid the need to transition.

Similarly, an entity may have qualified as an LCE for a number of years then, in a particular year, it carries out a single complex transaction which, as current drafted, scopes it out of the proposed standard for that year. In the following year it would qualify again as an LCE. This switching between ED-ISA for LCE and ISAs could be cumbersome for auditors, particularly where software packages use a roll forward facility resulting in the need to move documentation from LCE forms to ISA forms.

Firms which only perform LCE audits may find it burdensome to also have to maintain an ISA methodology in order to address the possibility that an engagement may have to transition.

**7. Professional Accountancy and Other Professional Organizations**

**Association of Practising Accountants**

Response: This will depend largely on how software systems will be able to cope with transitioning. It should be possible but some less flexible software systems may make this more difficult to implement. To manage this risk there needs to be a wider discussion with a number of alternative well established software providers to look at the practical implications of the standard and how these might be addressed.

**CPA Ireland**

It is considered that the transition to the proposed standard will be a challenge for many firms. In particular, it will be necessary for firms to review their internal quality control procedures, methodologies, working papers, IT systems and resources and update these as necessary.

**Institute of Chartered Accountants in England and Wales**

The problem of the need to transition, rare or otherwise, and the solution, depend on the approach taken by methodology and software providers. It is currently often difficult to transition from an ‘extant’ ISA audit to a ‘smaller’ ISA audit template within such
systems. Some methodology and software providers are clear that they can provide the linkage easily and that transition in both directions should not be difficult. For those with older systems, the linkage will need to be established. The standard is closely aligned to the extant ISAs as demonstrated by the mapping documents and on the face of it, it should not therefore be difficult to move between the two and the requirement to ‘restart’ the audit due to emerging complexities makes little sense.

We agree that if complexities arise the auditor should reconsider the planning and audit work and approach and consider whether additional work is required.

**Specific Questions**

**Section 4F – Other Matters**

**Question 13 - Views on transitioning**

**Question 13(a)**

Are there any aspects of the proposed standard that may create challenges for transitioning to the ISAs?

### 4. National Auditing Standard Setters

**Institut der Wirtschaftspruefer in Deutschland e.V. (IDW)**

As noted in our response to Part 4 of Question 9, we believe that there needs to be a requirement for the terms of engagement to deal with situations when, during an LCE audit, the auditor determines that the LCE standard is not appropriate.

**Malaysian Institute of Accountants**

Also the requirement under paragraph 139 (a) may create a legal risk to the auditor if the client refuses to re-sign or accept the new engagement terms of the updated engagement letter under existing ISA from the proposed standard. There is some risk the client may indicate there is an aspect of “negligence” from the auditor if the perceived view is the auditor should have reasonably identified the audit to be an LCE or otherwise at the point of engagement acceptance or continuance.

### 7. Professional Accountancy and Other Professional Organizations

**ASSIREVI**

Another specific issue related to transitioning that could pose application challenges with respect to Italian statutory audits relates to the preparation of engagement letters. In fact, paragraph 139 of the EM to ED-ISA for LCE states:

If it is determined that ED-ISA for LCE is no longer appropriate for use in an audit engagement, to transition the auditor would broadly need to (as appropriate in the circumstances):

1. Re-establish the terms of engagement, for example through the issuance of an updated engagement letter. (…)

This indicates that the engagement letter signed by the auditor and the client should establish the set of standards to be applied and this decision should be agreed by both parties as it is part of the engagement letter. It could imply that the terms of the engagement would have to be renegotiated at every transition and that management of the audit client could refuse them as it could mean an increase in the audit fee due to the increase in the audit work.

The possible scenarios of these circumstances are currently uncertain, also because a change in the reference standards could take place during the audit engagement. Accordingly, it would appear more sensible to postpone any decision about what set of standards to apply to after the engagement letter has been signed. Therefore, an engagement letter should be prepared that makes provision for when to apply the set of ISAs or when to apply the proposed standard together with agreement about adjustments to the audit fees. Given that set out above, we do not agree with the wording of point a) of paragraph 139 and believe that specific guidance about this issue should be provided in dedicated section about transitioning (see point b) below).

**CPA Australia**

It may also create conflict with the client when the engagement letter needs to be reissued, if the client questions the auditors initial judgement regarding the nature of the entity.

**Malaysian Institute of Certified Public Accountants**

The very rigid approach that discovery of any new complexities during the audit process which will then disqualify the use of this standard poses significant legal risk to the practitioners. It is unclear what may happen if clients refuses to re-sign the engagement letters using instead the extant ISAs framework and whether there may be an element of negligence particularly when the “top up” audit procedures subsequently required result in delays in completion of the audit and deadlines are missed.
9. Individuals and Others

Cristian Munarriz

Also, it may be useful to include a recommended paragraph in engagement letters to mention that the auditor may be required to transition out of ISA for LCE if matters coming to auditor’s knowledge subsequent to acceptance or continuance indicate that use of ISA for LCE is not appropriate because of complexity and a brief mention of the impact that transitioning may have. This recommendation is made because of the significant issues and discussions that transition may have for entities (for example the entity may disagree that use of ISA for LCE is no longer appropriate and the auditor may need to resign, if possible under local laws and regulations). Also specific requirements for acceptance and continuance related to transitioning may be useful.

Specific Questions\Section 4F – Other Matters\Question 13 - Views on transitioning\Question 13(a)
Are there any aspects of the proposed standard that may create challenges for transitioning to the ISAs? i. Need to Understand the Differences of the Standards

3. Regulators and Audit Oversight Authorities

Finance Professions Supervisory Centre Indonesia

Aspects contained in the possibility of a transition between the ED-ISA for LCE and ISA are already quite clear. In order to minimize transitions after the acceptance or continuance of the engagement, the specific boundaries and characteristics of the entity should be relevant and detailed in the ED-ISA for LCE. Furthermore, to addressing these challenges, at the time of acceptance or continuance of the engagement agreement from using the DE-ISA for LCE it is necessary to explain that matters of complexity not contemplated by the proposed standard have arisen during the audit, then the audit need to be transitioned to use the ISAs or other applicable auditing standards.

We agree with the explanation in paragraph 138, in accordance with the typical nature and circumstances of an audit of an LCE, not necessarily considered the use of additional “modules,” which may contain specific procedures for a more complex topic or area that could be “added on” where needed.

To that end, firms and auditors that perform audits under both sets of standards need to understanding of the “differences” between the ED-ISA for LCE and the ISAs to navigate this situation in a practical manner.

4. National Auditing Standard Setters

Japanese Institute of Certified Public Accountants

The degree of difficulty associated with the transition may vary depending on the extent to which audit procedures and documentation differ between applying the ISA for LCE and the ISAs. In this sense, it is important to clarify the practical differences between the ISAs and the ISA for LCE. Please refer to Question 1.

5. Accounting Firms

Ernst & Young Global Limited

We believe that, when it is determined the ED-ISA for LCE is no longer applicable due to new circumstances or events (e.g., audit increases in complexity over time) transitioning to the full suite of ISAs will be challenging because the differences between the ED-ISA for LCE and the full suite of ISAs are not clear. We believe that these time-consuming transition activities potentially could preclude auditors to initially elect to apply the ED-ISA for LCE, or for clients to agree to revised terms of engagement that include application of the ED-ISA for LCE.

7. Professional Accountancy and Other Professional Organizations

Instituto Mexicano de Contadores Públicos (IMCP)

Response:

Basically, the challenge is to identify what we should do to comply with the ISA for LCE, which leads us to have a clear understanding of each set of Standards and its scope, in order to know what could be missing and what we should be performing in the context of the audit work. Moreover, we consider that this is a challenge at an internal level within each firm and not a challenge that the IAASB can solve.
Specific Questions\Section 4F – Other Matters\Question 13 - Views on transitioning\Question 13(a) Are there any aspects of the proposed standard that may create challenges for transitioning to the ISAs? Other Comments

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)
Further, the lack of sufficient guidance on transitioning might result in some audit firms opting to apply the ISAs, as their audit methodologies are already tailored for the consideration of LCEs. The potential cost and time of needing to transition back to the ISAs will be a significant consideration for audit firms on whether or not to use the proposed standard.

Other challenges:
Possible auditor/client relationship tension.

There is also no guidance on re-issuing of financial statements, the auditor’s responsibility in this regard and the impact on the auditor’s report.

4. National Auditing Standard Setters

American Institute of Certified Public Accountants
Inability to Transition from the Exposure Draft to an Audit in Accordance with the ISAs

Absent a clear and understandable definition of an LCE that would reduce the risk of an inappropriate application of the Exposure Draft, it will become necessary for the auditor to transition from an audit performed in accordance with the Exposure Draft to an audit performed in accordance with the ISAs if the auditor makes a good faith determination that the entity is less complex only to encounter an area (or areas) of complexity during the audit. As exposed, the auditor would have to re-establish the terms of the engagement and repeat communications with those charged with governance. This inflexibility will:

Unnecessarily complicate the design of an audit plan to obtain reasonable assurance;

Overly complicate the development of a fee estimate as such estimate would be inherently contingent; and

Result in limited utility of the proposed standard.

Canadian Auditing and Assurance Standards Board

It may not be uncommon for complexities to arise midway through an audit that may require practitioners to transition to the ISAs. Management of LCEs may not understand what matters are considered complex for the purposes of using ED-ISA for LCE, and therefore may not bring them to the practitioner’s attention during engagement acceptance or continuance. Situations may arise year-over-year that may require practitioners to transition to the ISAs for a single year only, for example, a business combination, a significant impairment, or an accounting estimate for a contingent loss arising from litigation.

Institute of Chartered Accountants of India
Further, clarity is required on following aspects:
If a company is planning to go for listing, how and when does the auditor transition from ISA for LCE to main ISAs? Some guidance is needed on the same as the offer document will include at least 3 years audited financial information.
Can a company request an auditor not to apply ISA for LCE?

New Zealand Auditing and Assurance Standards Board
When considering the QCs of an entity to determine if it is a LCE at the client acceptance/continuance phase, the assessment is usually made by way of review of prior year signed financial statements (if any), latest interim financial information, independence and background checks and/or discussion with management. Any reliance on superseded information or on management to provide information, carries a risk of omission of information that may undermine the evaluation of the complexity of the entity.

5. Accounting Firms

Azets Audit Services
(a) The drafting principles used, alongside the ISA mapping, facilitate the move from ED-ISA for LCE to the ISAs as the performance of a gap analysis is achievable as principles and workflows are, in essence, very similar. The negative aspect of
this is that there could be a perception that where a firm’s methodology already distils extant ISAs into its approach (or this is procured from a third party), there won’t be much tangible benefit in adoption of ED-ISA for LCE. For reasons outlined in our response with reference to the link to regulation and monitoring in question 3(b), we believe that firm’s and methodology providers ought still to be able to support a step-change in approach that would offer a more proportionate, and high-quality audit of an LCE. On balance, therefore, we feel that the format of the standard offers an appropriate compromise.

BDO International
Response: The main challenge will arise in instances where during one period the entity is out of scope of the LCE standard because of a one-off transaction (e.g., an estimate with high estimation uncertainty) that cannot be comprehensively audited without also performing procedures that would be required under the full suite of ISAs, especially where this is identified partway through the audit.

Duncan & Toplis Limited
Response: We acknowledge that the requirement to switch to the ISAs from LCE-ISA is one of the greatest challenges faced in the drafting of the LCE-ISA. Given the principles-based nature of ISAs it is not possible to have a series of absolute rules determining when the LCE-ISA can be used, such rules / guidance will have to ultimately be provided at a local level (as per the authority). Simply put, if there is deemed to be the requirement of a move to the ISAs, then each aspect of the previous year file under LCE-ISA would need to be revisited to ensure compliance with the ISAs, this would be the major challenge.

KPMG IFRG Limited
We also refer to our comments elsewhere in this letter that over time certain auditors may no longer have sufficient knowledge and experience in dealing with full-scope ISAs. As a result, they may be less equipped to identify scenarios that would require transition. Furthermore, they may not have sufficient understanding of the differences between the LCE ISA and the full-scope ISAs to be able to design and perform audit procedures to appropriately transition. Since we believe these differences primarily reside within the application material, an auditor would need to have a very detailed/granular knowledge of the full-scope ISAs to be able to identify such differences. The IAASB itself acknowledges that firms using both sets of standards will need to have an understanding of the differences to be able to navigate this situation and perform any additional work necessary. As a result, such audits may need to be transitioned from one engagement team to another within the same firm, or even to a different firm/auditor altogether if that firm/auditor normally only conducts LCE audits. This could present audit quality challenges as well as creating deadline pressures – especially if the circumstances driving the need for transition are identified late in the audit process. These challenges may also create pressures for the auditor to attempt to remain within the scope of the LCE ISA when this would be inappropriate.

We are also concerned that there is a lack of clarity regarding situations where a component may meet the criteria to be considered an LCE in accordance with this standard, and the component auditors would plan to use this standard when performing the statutory audit at the component, however, the group entity is not an LCE and the group auditor would need to use the full-scope ISAs. In this scenario, and in the absence of any GAAP differences, it is unclear, when the group auditor instructs the component auditor to perform an "audit" over the component financial information, whether it would be acceptable for the group auditor to use the work of the component auditor that is performed in accordance with the LCE ISA, and if not, what additional "top up" or transition work the group engagement team would instruct the component auditor to perform to enable them to assert, at a group level, that they have conducted an audit in accordance with the full-scope ISAs. We understand this is under consideration by the IAASB.

Mazars
If the reason is that the LCE establishes a group, is it possible to use ISA for the group audit and ISA for LCE for the individual entities? This is relevant in case group audits are not allowed under ISA for LCE.

7. Professional Accountancy and Other Professional Organizations
ASSIREVI
The existence of qualitative characteristics and specific prohibitions that require consideration when assessing whether to use ED-ISA for LCE imply that a decision about a possible transition from the proposed standard to the full set of ISAs is left to the auditor. We believe it is inevitable that similar situations may arise which would be treated differently.

Belgian Institute of Registered Auditors (IBR-IRE)
Response: “Transitioning” is addressed in case of unexpected complexity. It is an additional subjective element that will give rise to uncertainty as to whether an auditor can and will use the ISA for LCE. In practical terms, the applicability of the proposed standard will therefore be reduced.
Chamber of Financial Auditors of Romania

Response:
Currently in Europe the ISAs are mandatory so the challenges will occur in the following areas:
Communication with those charged with governance (TCWG): we believe that there might be some questions from TCWG regarding the ISA's used and we consider that they might raise some concerns regarding the possibility that the auditor will work less for the same fee. That will raise doubts in relation with how TCWG will perceive auditor independence and in this case the auditor or the professional bodies should be able to respond to these concerns.

CPA Ireland

It is considered that the transition to the proposed standard will be a challenge for many firms. In particular, it will be necessary for firms to review their internal quality control procedures, methodologies, working papers, IT systems and resources and update these as necessary.
The upskilling of audit staff will also present as a challenge.
The education of clients will also be a necessary consideration for firms.

European Federation of Accountants and Auditors for SMEs

We recognize the challenges of transitioning.
Challenges for transitioning work in both directions, both to and from the new standard. Section 4F focuses on from the ISA for LCEs. We welcome, Section 4.6. Initial Audit Engagements of the standard. In the initial years after the new standard takes effect, we expect some, maybe many, jurisdictions to adopt the standard, or at least encourage its use, and many thousands of LCEs will either be transitioning from having no audit, and so no audit standard(s), to the ISA for LCEs, or from the ISAs or from national audit standard. In other words, there will be many entities and their auditors having to address first time use of the new standard, many the first-time use of any audit standard. Over time as the new standard gets well established and is widely used, the number of LCEs transitioning to the new standard will decline.
Similarly in subsequent later years we expect to see LCEs either become complex or otherwise not eligible to continue using the standard and so having to transition to the ISAs. Section 4F seems to adequately deal with this direction of transition.

Indonesian Committee on Public Accountant Profession (KPAP)

Response: KPAP believes there are challenges for the transition from ISA for LCE to ISAs. Some transitions, which could impact the entity's perception of the audit process, may have to be made once the planning is complete.

Institute for the Accountancy Profession in Sweden (FAR)

Response:
Transitioning between ISA for LCE and ISA will probably be relatively rare. When transitioning occurs, there are aspects to consider that are not commented on in the Explanatory Memorandum or in the EEM. We have identified the following examples:
If the reason is that the LCE establish a group, is it possible to use ISA for the group audit and ISA for LCE for the individual entities? This is relevant in case group audits are not allowed under ISA for LCE.
The Explanatory memorandum does not comment on transitioning from ISA to ISA for LCE. Since these are two different standards this should be commented (probably short) as well.

Institute of Certified Public Accountants of Rwanda

Response: We believe that clarity should be made regarding Group audits and the requirements associated with them for ease of understanding.

Institute of Certified Public Accountants of Uganda

As per the survey results (Appendix II), ICPAU is supportive of the standalone nature of the proposed standard. In Uganda, there are a significant number of entities that fulfil the criteria for classification as LCEs. Therefore, majority of the practitioners in the country are likely to adopt the new standard.
ICPAU is conscious of the possible consequence that auditors whose clients are mainly LCEs may subsequently only rarely refer to or apply the ISAs when the new standard is released. This raises concern over the training and development implications in using the Standard. The new standard is likely to create need to training, retraining and continuing professional development to ensure consistency in application of the ISA for LCEs and the ISAs. It is therefore imperative that the supplemental guidance is provided to addresses these issues and any concerns that may arise regarding the level of assurance provided by the ISA for LCEs.

Refer to 1 (a).
Institute of Chartered Accountants in England and Wales

It is not unusual during an audit of a less complex entity for issues to arise, which management did not think to discuss with auditors at a planning stage, typically, as the draft standard notes, relating to accounting estimates. Nevertheless, we believe that the need to transition to the extant ISAs should be rare, because transitioning should be linked to the statement in paragraph 27 of proposed Supplemental Guidance on the Authority of the Standard which states that “….the presence of one 'complexity' characteristic exhibited by an entity does not necessarily exclude the use of [draft] ISA for LCE for that entity.”

This statement should be amplified to include a statement that the complexity assessment should be applied to the entity as a whole, as well as its constituent parts.

Institute of Chartered Accountants of Ghana

Response: The simplicity of ISA of LCE could create challenges when faced with transactions such as related parties, going concern and others not anticipated in the initial or recurring audit.

Institute of Chartered Accountants of Pakistan

Response:

We note that the process of transitioning to the ISAs has been adequately explained in the ED-ISA for LCE.

The auditors may face risks of transitioning (such as disagreements with management, renegotiation of audit fee renegotiations and delays in the audit completion and issuance of the audit report). The potential risks, including risk of adverse client relationship may result in auditor’s reluctance to use ISA for LCE altogether or when using the ISA for LCE the auditor may be inclined towards not transitioning.

Institute of Chartered Accountants of the Maldives

Transition: Special consideration is to be given for regulators or entities in regards to their possible requirements to re-audit previous years audit when an entity operation changes from a year to another, from a LCE to a non LCE entity. In addition, comprehensive review of other regulations that could affect LCE audits such as Quality Management or Ethics regulations, given that if a new framework is required or developed it should be in accordance with these other regulations.

Instituto dos Auditores Independentes do Brasil

Also, the analysis that should be done in case a larger entity can become complex in subsequent periods is an area that needs to be clarified.

There is a lack of clarity regarding situations where a component may meet the criteria to be considered an LCE in accordance with this standard, and the component auditor would plan to use this standard when performing the statutory audit at the component, however, the group entity is not an LCE and the group auditor would need to use the full-scope ISAs. We understand this is under consideration by the IAASB.

Instituto Mexicano de Contadores Públicos (IMCP)

It is not clear whether it is prohibited to transition from ISA to ISA for LCE, once the audit has started. Additional guidance on this regard would be helpful for consistency of execution.

International Federation of Accountants’ Small and Medium Practices Advisory Groups

There is a risk that the auditor may have to revisit and redo audit procedures, only to end up with the same result, for example an unmodified audit opinion still being issued even after additional procedures are performed. In cases where the auditor determines partway through the audit that the client does not in fact meet the requirements to use the standard, this could also result in audit fee renegotiations and even delays in issuance of the audit report. Auditors will need to be aware of this risk and plan accordingly, especially on first time through audits where they were not previously auditing an entity under the ISAs. There could even be additional time and cost spent in determining whether an entity meets all of the requirements to be considered an LCE for purposes of this standard.

Nordic Federation of Public Accountants

Would it be possible to use ISA for the group audit and ISA for LCE for the individual entities if the need for transitioning is because the LCE has established a group? This is relevant in case group audits will not be allowed under ISA for LCE.
The EM does not comment on transitioning from ISA to ISA for LCE. Since these are two different standards this should be briefly commented as well.

**REA Auditores**

Response:
We recognize the challenges of transitioning. Challenges for transitioning work in both directions, both to and from the new standard. Section 4F focuses on from the ISA for LCEs and Section 4.6. deals with Initial Audit Engagements of the standard. In the initial years after the new standard takes effect there will be many entities and their auditors having to address first time use of the new standard, many the first-time use of any audit standard. Over time as the new standard gets well established and is widely used, the number of LCEs transitioning to the new standard will decline.

Similarly in subsequent later years we expect to see LCEs either become complex or otherwise not eligible to continue using the standard and so having to transition to the ISAs. Section 4F seems to adequately deal with this direction of transition.

**South African Institute of Professional Accountants**

Response: We agree and recognize the challenges of transitioning.
Paragraph A.9. in ED-ISA for LCE specifies that “notwithstanding that professional judgment is used in determining whether the [draft] standard is appropriate to use, if there is uncertainty about whether an audit is an audit of the financial statements of an LCE, the use of the [draft] ISA for LCE is not appropriate.”

Based on the above paragraph we believe the standard is clear that if there are any circumstances where the auditor is uncertain if this standard is appropriate, it is not appropriate to apply this standard. We believe that this will decrease the number if audit engagements where the auditor would apply this standard incorrectly.

8. Academics

**Argentine institute of Auditing Professors**

Response: We have not detected any aspect that could be added to Section 4F.

9. Individuals and Others

**ASK KSA Consulting Inc.**

In addition, the other issue that may arise is that an entity may be in one year, then out due to an acquisition then back in again the following year. That also causes issues and is not practical. There is no concept of “topping up” procedures related to a specific issue in a situation like this. In general we agree with this approach as this is to be a standalone standard but that fact does cause issues to which we do not have a recommendation.

**Specific Questions\Section 4F – Other Matters\Question 13 - Views on transitioning\Question 13(a)**

Are there any aspects of the proposed standard that may create challenges for transitioning to the ISAs\k. No Further Challenge

4. National Auditing Standard Setters

**Austrian Chamber of Tax Advisors and Public Accountants (KSW)**

Response: None

5. Accounting Firms

**ETY sas**

Response: None

6. Public Sector Organizations

**Audit Scotland**

Response: No.

**Auditor-General of New Zealand**

We agree that the proposed standard clearly explains the requirements for transitioning to the ISA. The clear message is that the proposed standard should not be used unless the auditor is certain that an entity, or class of entity, is a less complex entity.
7. Professional Accountancy and Other Professional Organizations

Botswana Institute of Chartered Accountants
Response: None noted.

Chamber of Auditors of the Republic of Azerbaijan
13. We believe that no aspect of the proposed standard may challenge the transitioning to the ISA.

Chartered Accountants Ireland
We agree with the proposed transition procedures.

Chartered Governance and Accountancy Institute in Zimbabwe
Response: No. We do not believe there are any challenges to be faced for transitioning to the ISAs.

Confederation of Swedish Enterprise
Response: Not that we have identified.

Institute of Certified Public Accountants of Kenya
Response: None.

Institute of Chartered Accountants of Jamaica
Response: NO

Ordre National des Experts Comptables et des Comptables Agréés du Burkina Faso (ONECCA-BF)
Response: None

Polish Chamber of Statutory Auditors Warsaw (Regional Branch)
Response: No identified.

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

Specific Questions/Section 4F – Other Matters/Question 13 - Views on transitioning/Question 13(b)
What support materials would assist in addressing these challenges a. Transitional Guidance

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)
- With a more clearly defined narrower scope, the risk of audits being commenced using the proposed standard and subsequently judged to no longer meet the criteria for use, would reduce the need for extensive transition guidance. With a narrower Authority, in the rare circumstances that matters arise that leads to a determination that a transition to the ISAs is required, guidance on how any work completed using the proposed standard can be leveraged as part of an ISA audit will be needed.

We suggest that the following support materials be developed:
- As mentioned as part of our response to question 9 when commenting on the “stand-back” requirement in paragraph 6.5.11. of the proposed standard, it is suggested that support material be issued on how an auditor would transition from the proposed standard to the ISAs, should the application of the proposed standard no longer be appropriate.
- We support that First-time Implementation Guidance on transitioning between the proposed standard and the ISAs (including details of the type of additional work that may be required) should be issued. This could assist auditors with a quicker transition. Otherwise, in the absence of appropriate guidance, the transition could be time consuming and costly, which could serve as a disincentive for firms to adopt this standard. The inclusion of a decision tree to guide auditors when transitioning between the two standards would be useful.
- The First-time Implementation Guidance should address all the matters set out in paragraphs 139-140 of the Explanatory Memorandum.
Irish Auditing and Accounting Supervisory Authority
While the standard requires the auditor to consider whether the use of the ISA for LCE continues to be appropriate, it does not state what action is required where the auditor concludes that it is not.

4. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board
AUASB Response:
The AUASB notes that there are currently no transitioning provision requirements within the standard and suggests requirements should be included as part of the proposed standard.

Austrian Chamber of Tax Advisors and Public Accountants (KSW)
Response: We believe there is a need for a separate document for the transitioning to the ISAs as described in 4F paragraphs 130 to 141 (supplemental guidance).

Canadian Auditing and Assurance Standards Board
Making the process and work effort to transition to the ISAs clear and not onerous. The IAASB could:
clarify the transitioning matters in paragraph 139 of the IAASB EM, for example, making clear that the audit work performed on the non-complex elements of the entity under the ISA for LCE need not be reperformed in transitioning to the ISAs; and

Compagnie Nationale des Commissaires aux Comptes and Conseil Supérieur de l'Ordre des Experts-Comptables
Please refer to our response to question 10 (a).
In addition, we recommend that the IAASB develops further guidance on when it is necessary to move from ED-ISA for LCE to full ISAs and vice versa and explains the impacts on the work effort.

Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)
We note that the process for transitioning is explained in the Explanatory Memorandum. This process can be included in non-authoritative guidance that addresses the steps that may be necessary.

Japanese Institute of Certified Public Accountants
Response:
In light of the above, it is preferred to develop guidance that clarifies under what circumstances the transition to the ISAs should take place and the steps or procedures for such transition.
As for the transition procedures, the guidance should clearly state matters such as whether the audit engagement needs to revise the acceptance and continuance or not, and whether the transition requires a change in documentation and the details of such change if required.

Malaysian Institute of Accountants
Response: We believe perhaps there could be additional non-authoritative support materials that provide for some of the more common situations that could arise and what additional procedures would be necessary in specific areas should they need to transition to the ISAs.

In the case where the IAASB would provide for a supplementary module, there would need to be a clear differentiation between when the said module could be applied and when the auditor would need to transition to the full ISAs.

5. Accounting Firms

Azets Audit Services
(b) Support materials that explicitly cover transition and differences between ED-ISA for LCE and ISAs may allay concerns of users of ED-ISA for LCE in this area.

BDO International
Other possible additions to the transition requirements / EEM that would need to be considered are guidance relating to opening balances, comparative figures and engagement letter clauses.
Ernst & Young Global Limited

It is our understanding that, when designing the ED-ISA for LCE, the IAASB expected that it would be relatively rare for an audit to need to transition during the period under audit after engagement acceptance or continuance from using ED-ISA for LCE to using the full suite of ISAs because the specific prohibitions or relevant qualitative characteristics are likely to be known at the time of engagement acceptance or continuance. However, even though it is expected that it would be rare for an audit to transition from using ED-ISA for LCE to using the full suite of ISAs mid-audit, we believe that transitional guidance is needed. It is our view that transitional guidance needs to cover both transitioning from the ED-ISA for LCE to the full suite of ISAs during the audit and from audit period to audit period.

We believe that when it is determined the ED-ISA for LCE is no longer applicable due to new circumstances or events (e.g., audit increases in complexity over time) transitioning to the full suite of ISAs will be challenging because the differences between the ED-ISA for LCE and the full suite of ISAs are not clear. We believe that these time-consuming transition activities potentially could preclude auditors to initially elect to apply the ED-ISA for LCE, or for clients to agree to revised terms of engagement that include application of the ED-ISA for LCE. We believe that detailed transition guidance will need to be provided and it will need to include what incremental procedures need to be performed when transitioning from the ED-ISA for LCE to comply with the full suite of ISAs. For example, when complexities are discovered during the audit and the auditor must transition from the ED-ISA for LCE to the full suite of ISAs, the terms of the engagement would need to be re-established, an updated engagement letter would need to be signed, communications to management and those charged with governance would need to be revised and updated, requirements scoped out of the ED-ISA for LCE would need to be identified and addressed, entire ISAs scoped out of the ED-ISA for LCE would need to be identified and addressed, etc.

KPMG IFRG Limited

We recommend that the IAASB provide clear guidance regarding what a transition is expected to involve, and how, from a practical perspective, this would be achieved. As we state above in our response to part a) of this question, we believe it would be very challenging, in practice, to execute a transition.

Mazars

In our view IAASB should issue support materials to assist practitioners in transitioning from ISA for LCE both during an ongoing audit and when the transition is made between two financial years. The material referred to in paragraph 77 is not suitable for this.

PKF International Limited

Response: Clarification on what is actually required on transition to the ISA’s, including an example of a particular scenario.
PriceWaterhouseCoopers
With a narrower Authority, in the rare circumstances that matters arise that lead to a determination that the ISA for LCE is no longer appropriate for use, we recommend pragmatic guidance be provided that explains how any work completed using the ISA for LCE can be leveraged as part of an ISA audit.

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe
The process for transitioning to the ISAs is explained in the Explanatory Memorandum. We believe that there is a need for a separate guidance which briefly describes the matters to be considered and steps to be taken while transitioning to the ISAs.

Association of Practising Accountants
Response: Specific details of what exactly firms will be required to do if there is the requirement to transition from the LCE standard to the main ISA’s.

Belgian Institute of Registered Auditors (IBR-IRE)
Response: The diagram set out in point 50 of the ED explains clearly the limitations for an individual engagement and what standard to choose in the course of the acceptance of the engagement. A clear matrix that comprehensively indicates the additional steps that need to be carried out when transitioning to the ISAs may also be needed. In this context, reference may be made to the mapping documents, but it is rather exhaustive and not very user-friendly in that area. We suggest for a separate mapping to be foreseen which only includes the paragraphs of the current ISAs that have no equivalent in the ISA for LCE.

CPA Australia
Response: As we are suggesting a different approach to allow “topping-up” of requirements and application material from the ISAs, there would be an increased need for materials to explain when the complexity was pervasive and the engagement needed to move entirely to the ISAs.

Eurasian Group of Accountants and Auditors
We believe that the IAASB should develop supplementary guidance on procedures for transitioning from the application of ISA for LCE to the application of the full-scope ISAs and clarify under what circumstances such a need arises.

Federation of Accounting Professions of Thailand
Currently, the exposure draft does not address in details or provide guidance for the auditor in case where the auditor plans to apply this ISA for LCE at the beginning of the year and due to changes in the circumstances, resulting in the ISA for LCE not being allowed by the year-end or vice versa. Examples of the topics to be covered may include how the auditor should address on scope change, additional work to be done for the comparative financial data, special treatments in the audit report.

Institute for the Accountancy Profession in Sweden (FAR)
Response: In our view IAASB should issue support materials to assist practitioners in transitioning from ISA for LCE both during an ongoing audit and when the transition is made between two financial years. The material referred to in paragraph 77 is not suitable for this.

Institute of Chartered Accountants in England and Wales
Additional, separate guidance on the practical implications of transitioning between the standards should be developed by IAASB, after liaising with methodology and software providers.

Institute of Chartered Accountants of Pakistan
Response: We understand that the IAASB would be providing additional implementation guidance material on transitioning. Guidance material containing examples of common scenarios leading to a switch in the auditing framework would be helpful for auditors of less complex entities.
Institute of Indonesian Chartered Accountants (IAI)

In cases where the entity is no longer exhibit the qualitative characteristics of an LCE as defined in the standard during the period, questions arise as to how and when the auditors should transition from using this standalone standard into ISAs. For example, based on information gather during the client acceptance process, auditors may conclude that the entity exhibits qualitative characteristics of an LCE; yet if the entity acquired another business near year-end (resulting in the application of more complex accounting estimates, and the necessity for having a group audit), the conclusion may have changed as the entity no longer exhibit the qualitative characteristics of an LCE. Further clarification and guidance might be necessary.

International Federation of Accountants’ Small and Medium Practices Advisory Groups

We believe there could be additional support materials that provide for some of the rare situations that could arise and what steps an auditor should take in those circumstances.

Korean Institute of Certified Public Accountants

It will be helpful if some examples are provided to illustrate in detail how to apply the procedures described in paragraph 139 of Explanatory Memorandum.

Malaysian Institute of Certified Public Accountants

More guidance should be provided in the event practitioners are required to switch the audit from using this standard to the extant ISAs and the accompanying issues that will need to be addressed. Perhaps the expectation that switching of auditing framework during the audit is expected to be rare should be clearly indicated in the standard and the procedures that will be required to ensure this.

Please see our responses above.

Nordic Federation of Public Accountants

In our view IAASB should issue non-authoritative support material to assist practitioners in transitioning from ISA for LCE both during an ongoing audit and when the transition is made between two financial years.

Self-Regulatory Organization of Auditors Association (SRO AAS)

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.

South African Institute of Chartered Accountants (2)

Response: 108. Extensive guidance is required on when the LCE standard may be used and when it may not be used to avoid the need to transition back to the ISAs.

South African Institute of Professional Accountants

Response: We would recommend specific guidance material setting out the transitioning in the following circumstances:

- Transitioning from ISA to ISA for LCE
- Transitioning from ISA for LCE to ISA
- Transitioning to ISA subsequent to commencing an audit on ISA for LCE when additional complex transactions were identified

Union of Chambers of Certified Public Accountants of Turkey (TURMOB)

Response:

A flow diagram demonstrating the transition process with a decision tree would be useful as an Appendix.

Specific Questions\Section 4F – Other Matters\Question 13 - Views on transitioning\Question 13(b)
What support materials would assist in addressing these challenges\b. Reporting

3. Regulators and Audit Oversight Authorities

Finance Professions Supervisory Centre Indonesia

We believe guidance about how a practitioner transitions between the standard for LCE and the full ISAs is required. Moving back and forth between the ISA for LCE and the ISAs (in case there are changes in complexity measurement) may cause confusion for the auditors as well as the users of the financial statements who will not be receiving the same type of auditor's report year over year. Consideration would need to be given regarding how to describe comparative figures in such a situation,
as those figures would not have been audited using the same standards. As such, any significant changes or complexities should be known at a very early stage in the audit process.

Independent Regulatory Board for Auditors (IRBA)
- Paragraph 140 of the Explanatory Memorandum references the anticipated development of illustrative reports in relation to ISA 710. It is suggested that these illustrative reports be included in the Reporting Supplemental Guide rather than any other implementation material, so that all illustrative auditor’s reports are kept together.

4. National Auditing Standard Setters

Canadian Auditing and Assurance Standards Board
provide guidance on reporting in situations when the ISA for LCE is used for one year and the ISAs for another, and how the risk of user confusion would be mitigated.

5. Accounting Firms

Azets Audit Services
Consideration should also be given as to whether there are any viable gaps that could be addressed through reported transition exemptions within the ISAs – similar to those seen on change of financial reporting frameworks in a financial reporting sense – for example, where opening balances (or comparatives) were audited under the LCE framework in the first year of adoption of ISAs.

BDO International
If the need to transition from an LCE audit to a full ISA audit is retained in the proposed LCE standard, consider whether there should be an Other Matters paragraph added to those auditor’s report to highlight the underlying audit standard has changed from one year to the next.

Ernst & Young Global Limited
Additional areas that we believe should be addressed in this transitional guidance include, but not limited to, the following: Guidance to address how the change from the ED-ISA for LCE to the full suite of ISAs (or vice versa) would affect the comparability of the audited information if an audited entity is an LCE in one audit period and not in a subsequent audit period (e.g., guidance on how the auditor’s report on comparative financial statements would look when one year the audit was performed in accordance with the ED-ISA for LCE and the following year the audit was performed in accordance with the ISAs).

Grant Thornton International Limited
We are of the view that certain aspects of the Authority should be revisited, thus enabling transition into and out of ED-ISA for LCE to be a period-to-period occurrence rather than a potential mid-audit occurrence. As such, as noted in our response above, guidance around the presentation of the auditor’s report in situations where the audit is performed under ED-ISA for LCE in one year and under the ISAs in a subsequent or preceding year would be necessary.

6. Public Sector Organizations

Government Accountability Office (USA)
We believe that there may be lack of clarity when reporting on financial statements presenting multiple years of data where in some years auditors followed the ISA for LCE and in other years auditors followed the regular ISAs. To address this, the IAASB could add examples of reports where this occurs to the Reporting Supplemental Guide.

7. Professional Accountancy and Other Professional Organizations

Chamber of Financial Auditors of Romania
Reporting: as mentioned in paragraph 140 there will be cases in practice where current financial statements will be audited under ISA for LCE and previous financial statements had been audited under ISA. We consider the difference in applying ISA (ISA or ISA for LCE) will not diminish the auditor responsibility nor the TCWG’s responsibilities – this statement or similar shall be included in the auditor report and implementation material that will be provided alongside the release of final ISA for LCE also.

Response:
As a global response, additional guidance from IAASB and IFAC for issues mentioned above and guidance materials and information from other Professional Bodies or Regulators on these matters, depending also on national circumstances.
Federation of Accounting Professions of Thailand

Currently, the exposure draft does not address in details or provide guidance for the auditor in case where the auditor plans to apply this ISA for LCE at the beginning of the year and due to changes in the circumstances, resulting in the ISA for LCE not being allowed by the year-end or vice versa. Examples of the topics to be covered may include how the auditor should address on scope change, additional work to be done for the comparative financial data, special treatments in the audit report.

Institute of Chartered Accountants of Namibia

Response:
Illustrative wording that can be included in the audit report. This could be similar to what is included in the accounting policies section of financial statements when the financial reporting framework is changed from the prior year. E.g. there is no impact of the change in audit standards on the level of assurance obtained.

Self-Regulatory Organization of Auditors Association (SRO AAS)

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.

Specific Questions\Section 4F – Other Matters\Question 13 - Views on transitioning\Question 13(b) What support materials would assist in addressing these challenges\c. Difference Between ISAs Including Mapping Document

3. Regulators and Audit Oversight Authorities
Independent Regulatory Board for Auditors (IRBA)
It is also important that the mapping documents are updated post exposure and issued alongside the final proposed standard.

5. Accounting Firms
Crowe Global
The role of support materials could include clarifying understanding regarding the difference between ISA requirements and the requirements of this standard. This will assist users as they could unwittingly apply ISA requirements that are not ordinarily within the scope of this standard (subject to our observation about the application of the standard in our response to question 1).

Support materials will also assist the providers of automated audit applications with adapting their products for application with this standard.

Duncan & Toplis Limited
Response: As many examples as possible and a clear mapping from the LCE-ISA to the ISAs. It is envisaged that this would need to be provided at a local level.

7. Professional Accountancy and Other Professional Organizations
ASSIREVI
Preparation of specific guidance about transitioning in a separate document would facilitate the more consistent management of all issues that could arise when transitioning from the proposed standard to the full set of ISAs. The Mapping Documents, which compare the ISAs to the proposed ISA for LCE, are a good source of guidance in the case of transitioning.

Belgian Institute of Registered Auditors (IBR-IRE)
Response: The diagram set out in point 50 of the ED explains clearly the limitations for an individual engagement and what standard to choose in the course of the acceptance of the engagement. A clear matrix that comprehensibly indicates the additional steps that need to be carried out when transitioning to the ISAs may also be needed. In this context, reference may be made to the mapping documents, but it is rather exhaustive and not very user-friendly in that area. We suggest for a separate mapping to be foreseen which only includes the paragraphs of the current ISAs that have no equivalent in the ISA for LCE.

Chamber of Financial Auditors of Romania
The mapping document between the requirements of ISAs and the proposed standard is a very useful tool and it will be beneficial for practitioners in the course of transition from ISAs to ISA for LCE. It might also be useful for continuous professional development courses and for a better understanding of the application of the new standard by interested stakeholders.
9. Individuals and Others
ASK KSA Consulting Inc.

ASK KSA Response:
Support materials to assist the challenges in transition would be examples and explanatory material. We gave consideration to recommending a “map” that would outline the procedures to “top up” to an ISA audit but we recognized this is not an appropriate solution. In practicality, auditors most likely would rely on this map too much and create further risk. The onus is on the auditor to know the differences. This will create further challenges with time as the ISAs and the ED-ISA for LCE are similar today but most likely will diverge over time.

Specific Questions\Section 4F – Other Matters\Question 13 - Views on transitioning\Question 13(b)
What support materials would assist in addressing these challenges\d. Engagement Letter

3. Regulators and Audit Oversight Authorities
Independent Regulatory Board for Auditors (IRBA)
- Guidance on the drafting of engagement letters might be needed, considering the subjective nature of the proposed standard, including a caveat that the decision to use the proposed standard was made with the information available at the client acceptance phase and that this might be subject to change.

4. National Auditing Standard Setters
American Institute of Certified Public Accountants
If the IAASB continues towards the development of a separate standalone standard for audits of LCEs, guidance needs to be included to assist auditors when they need to transition from the Exposure Draft to the ISAs. For example, guidance as to how to update the existing agreed-upon terms of the engagement would be needed.

5. Accounting Firms
BDO International
Other possible additions to the transition requirements / EEM that would need to be considered are guidance relating to opening balances, comparative figures and engagement letter clauses.

7. Professional Accountancy and Other Professional Organizations
South African Institute of Chartered Accountants (2)
Guidance should also be provided on how the engagement letter should be drafted in order to address those circumstances when the auditors may need to transition from the LCE standard to the ISAs.

Specific Questions\Section 4F – Other Matters\Question 13 - Views on transitioning\Question 13(b)
What support materials would assist in addressing these challenges\e. Change in Auditor

3. Regulators and Audit Oversight Authorities
Committee of European Auditing Oversight Bodies
Further while some detail is provided in the explanatory memorandum on transitioning between the ISA for LCE and the ISAs, this should be developed further to provide clear information to auditors on the work required of them in this situation. In particular, in case of a change in the auditor by the audited entity when the new auditor decides to move to the full set of ISAs instead of applying the ISA for LCE. It is not clear what action is required in the audit of opening balances.

Irish Auditing and Accounting Supervisory Authority
Further while some detail is provided in the explanatory memorandum on transitioning between the ISA for LCE and the full ISAs, this should be developed further to provide clear information to auditors on the work required of them in this situation. In particular, when there is a change of auditor and the new auditor decides to move to the full set of ISAs it is not clear what action is required in the audit of opening balances.

7. Professional Accountancy and Other Professional Organizations
Korean Institute of Certified Public Accountants
Furthermore, we propose additional requirements or supplementary materials be provided to explain the required procedures when the current auditor in an initial audit engagement makes a different judgment from the previous auditor, and circumstance where transition to the ISA is required in a continuing audit engagement.
South African Institute of Chartered Accountants (2)
An area that needs to be expanded on in the LCE standard is that of auditing opening balances where the ISAs were used by a predecessor auditor. Further non-authoritative guidance in this regard should be included in the area dealing with transitional requirements.

Specific Questions\Section 4F – Other Matters\Question 13 - Views on transitioning\Question 13(b) What support materials would assist in addressing these challenges\f. The Issues Cannot be Resolved by Support Materials

5. Accounting Firms

Baker Tilly International
Baker Tilly comments: We do not think these issues are capable of being addressed by support materials – they are more fundamental than that.

BDO International
Response: We do not think that support materials will resolve the situation of an estimate with high estimation uncertainty that arises during the audit; we believe the scope of the proposed standard needs to be revised to remove the estimates scenario. If a situation exists where an entire ISA standard that was excluded from the proposed LCE standard becomes relevant during the audit because of new events which occurred between the planning of the engagement and the engagement performance (e.g., the entity issues share based compensation, which requires a valuation method with a high level of estimation uncertainty, and therefore requires the application of ISA 540R), we do not see the harm in performing the requirements of that standard in the LCE file. But our understanding is that such a ‘top-up’ is not allowed so we would have to start the audit over using an audit tool that is based on the full suite of ISAs. To start the audit over using full ISA automated tools is just not practical, so no support material will solve that problem.

As far as other situations that could arise during the audit (e.g., a change in ownership structure, a change in the entity’s IT environment or IT systems, significant changes in operations, etc.), which would, under the draft requirements, require teams to transition to the full ISAs, again we do not believe that support materials will resolve the issue. Unless the audit software that an engagement team uses can convert an LCE file to a full ISA file automatically, no amount of support materials will make the transition process efficient. Since the LCE requirements are essentially equivalent to a full ISA audit, we are not sure what the support material would even highlight.

In summary, we believe that transitioning to a full ISA audit is not a reasonable expectation; we believe that auditors should be able to add new ISA requirements that become relevant during the audit to the LCE file (as facts and circumstances arise), and then change the auditor’s report to refer to ISAs and provide the level of transparency required by users of the financial statements.

However, this only works if the ISA for LCEs and ISAs essentially have the same requirements and provide the same level of assurance. If the IAASB agrees to remove more requirements from the proposed LCE standard to simplify it more and perhaps provide a lower level of assurance, then it will be difficult to ensure that all extra work is performed and documented in the LCE file to support an ISA opinion. The further apart the 2 standards become, the need to switch to an ISA audit tool will increase.

HLB International
We do not believe that it should be relatively rare for an audit of an entity to need to transition after engagement acceptance or continuance from using ED-ISA for LCE to using the ISAs. In particular, many less complex entities may not recognize that a unique transaction or circumstance would exclude it from ED-ISA for LCE and this may not be detected by the practitioner until well into the engagement. We believe the provisions described in paragraph 139 would be punitive to a practitioner and result in many practitioners electing to not utilize ED-ISA for LCE as the auditor would effectively need to start over in their audit work and documentation. We do not believe support materials would sufficiently assist in addressing these challenges.

RSM International
Response: The challenges in transitioning to ISAs are mainly practical and therefore we do not consider that any support material would assist in this process.
Specific Questions | Section 4F – Other Matters | Question 13 - Views on transitioning | Question 13(b)  
What support materials would assist in addressing these challenges?  
g. No Further Guidance Needed

5. Accounting Firms
Sayer Vincent LLP
This is certainly an area of concern about the standard and we are pleased to see it reflected so prominently in the guidance. We have not noted anything in particular that could be added to the guidance. The key risk remains not identifying these issues sufficiently early in the process but this just highlights the importance of effective planning procedures. It also shows the importance educating clients on the rules around ED-LCE as much as auditors.

7. Professional Accountancy and Other Professional Organizations
European Federation of Accountants and Auditors for SMEs
Response: We believe no further guidance may be necessary.

REA Auditores
Response: We believe no further guidance may be necessary.

Society of Certified Accountants and Auditors of Kosovo (SCAAK)
Response: We believe no further guidance may be necessary.

Specific Questions | Section 4F – Other Matters | Question 13 - Views on transitioning | Question 13(b)  
What support materials would assist in addressing these challenges?  
h. Other Comments

3. Regulators and Audit Oversight Authorities
Botswana Accountancy Oversight Authority
The assessment of the criteria in deciding whether the ISA for LCEs can be applied may create challenges, as such as more comprehensive guidelines may be availed to assist in this regard.

Independent Regulatory Board for Auditors (IRBA)
- The other challenges noted above are more relationship-related matters between the auditor and the audit client. They might not be the IAASB’s responsibility to issue guidance on. However, another body such as IFAC could address these matters.
  Other challenges:
  Possible auditor/client relationship tension.
  Audit cost disputes between the auditor and the audit client.
  Time constraints.

4. National Auditing Standard Setters
Canadian Auditing and Assurance Standards Board
We believe that issues around transitioning can be dealt with as follows:
Addressing certain commonly encountered complexities in ED-ISA for LCE through the Authority and requirements, so that situations where practitioners need to transition to the ISAs are limited. To do this, we suggest that the IAASB consider field-testing the requirements relating to those areas that may be more complex, such as estimates, to determine what situations and requirements may be appropriate to include.

We believe that transitioning requirements and guidance should be included in ISA for LCE.

Federación Argentina de Consejos Profesionales de Cs. Económicas
Answer: Reference guides, with examples that facilitate the approach to these indicated topics.

Indonesian Institute of Certified Public Accountants (IAPI)
Response: Guidance in relation to above mentioned concern.
Response: Section 136 – 139 prohibits the use of ED-ISA for LCE when certain circumstances arise during the audit, e.g., complex estimates. As there is no ability to do top-up procedures by referring to the ISA, the auditors will have to abandon the use of ED-ISA for LCE mid-way during the audit and refer back to the use of ISA. This would create additional time and costs to adjust the overall audit process including the audit documentation in order to comply with ISA. There might be challenges to recoup any costs to switch from ED-ISA for LCE to ISA when, e.g., a complex transaction is executed post conclusion made to use ED-ISA for LCE. This situation might deter and prevent wider use of the ED-ISA for LCE among the practitioners for fear of incurring more time as a result of a change from the use of ED-ISA for LCE to ISA during the year, especially if there is no significant efficiency arising from the use of the ED-ISA for LCE.

New Zealand Auditing and Assurance Standards Board
Response:
The NZAuASB recommends that the IAASB look to develop guidance on the ‘first time’ adoption of ISA for LCE, for example guidance to ensure auditors ask the right questions at the client acceptance/continuance phase to enable auditors to perform the assessment as to whether using ISA for LCE is appropriate, so that any indicators of complexity will be identified earlier, thus minimising the risk of transitioning too late to the full ISAs.

Public Accountants and Auditors Board Zimbabwe
Response: More examples

5. Accounting Firms
Ernst & Young Global Limited
Guidance to address what additional audit work would need to be performed when an entity is going to undergo an initial public offering and was audited under the ED-ISA for LCE and now needs to transition to a full ISA audit (e.g., what additional work will the auditor have to perform on the prior year financial statements to be included in the offering document, since they were not audited under the ISAs).
Guidance to address the difference between a statutory audit performed under the ED-ISA for LCE versus a ‘full scope’ audit of a component as part of a group audit performed under the ISAs. Specifically, what, if any, additional procedures would the group auditor need to consider relative to their ability to issue the group audit opinion.

7. Professional Accountancy and Other Professional Organizations
Chamber of Financial Auditors of Romania
Response:
As a global response, additional guidance from IAASB and IFAC for issues mentioned above and guidance materials and information from other Professional Bodies or Regulators on these matters, depending also on national circumstances.

Currently in Europe the ISAs are mandatory so the challenges will occur in the following areas:
Communication with those charged with governance (TCWG): we believe that there might be some questions from TCWG regarding the ISA’s used and we consider that they might raise some concerns regarding the possibility that the auditor will work less for the same fee. That will raise doubts in relation with how TCWG will perceive auditor independence and in this case the auditor or the professional bodies should be able to respond to these concerns.

Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants
(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?
Transition and the standalone nature of the standard. We are supportive of presenting ISA for LCEs in a separate standard. However, we have heard mixed feedback on the strict standalone requirement of using the standard. The feedback from practitioners who audit LCEs is that encountering a single complex issue that was not identified during engagement acceptance and continuance or planning may not be as rare as contemplated in the ED. The prospect of having to go back and perform a full ISA audit if an isolated issue is discovered will be a deterrent to practitioners who may otherwise adopt the standard. An example frequently raised by our stakeholders is in respect of accounting estimates with many suggesting that the standard should provide some flexibility in this area as this will allow a significantly larger pool of entities to be scoped in the standard and in return making its adoption a lot more attractive for firms.
In addition, stakeholders have pointed out that, in jurisdictions where the practitioners are well versed in the full ISA suite, it is difficult for a practitioner to identify where they may be applying their experience of the full ISAs in performing an ISA for LCE which may result in an inadvertent "uplifting" of procedures. This would also potentially result in issues where regulators form different judgments about what procedures should have been applied. While it may be that LCE audit specialisations develop and are addressed by the educational programs of professional bodies, initially, the majority of auditors using the standard will have a good knowledge of the full suite of ISAs. We believe that a practical solution which would allow an auditor to 'uplift' procedures when an isolated 'complex' issue that isn't specifically addressed by the standard would present an approach that is more easily able to be implemented. This could be accompanied by a requirement for the auditor to reassess the audit of the following engagement period and to determine whether it should continue to be performed under ISA for LCEs going forward. This approach would necessitate some guidance on the nature and extent of issues that would still trigger the need to revert to a full ISA audit.

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

This issue would need to be addressed by both a change in the requirements in relation to transitioning and support materials.

**CPA Ireland**

It is considered that the auditors of LCEs will require training and support during the transition period, including supporting workshops, webinars, and articles. CPA Ireland will be happy to develop such supports for its members. Information and supports should also be available to a wider audience including LCEs and their stakeholders to support the acceptance of the standard.

**Finnish Association of Authorised Public Accountants**

ISA for LCE and supporting material should emphasize that there should be relatively few cases where there is a need to switch to ISAs during the audit. A separate non-authoritative guidance could be useful.

**Institute of Certified Public Accountants of Cyprus**

Response: Transitioning should be done in rare cases so perhaps the IAASB should not give emphasis on this by issuing support materials. Support materials can be provided for the first-time transition. Our earlier comments regarding the need to establish more clearly defined criteria to determine scope are important in minimising the transitioning instances.

**Institute of Certified Public Accountants of Kenya**

Response:

A guidance document would go a long way in addressing any challenges that might arise in the application of the Standard.

**Institute of Certified Public Accountants of Uganda**

Comment:

An implementation guide would be instrumental in addressing challenges related to use of the proposed ISA.

**Institute of Chartered Accountants of Ghana**

i. 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: The simplicity of ISA of LCE could create challenges when faced with transactions such as related parties, going concern and others not anticipated in the initial or recurring audit. What support materials would assist in addressing these challenges?

Response: IAASB should provide sufficient guidance to assist practitioners in this instances

**Institute of Chartered Accountants of Jamaica**

What support materials would assist in addressing these challenges?

Response: Training material is required to aid in the transitioning.

**Instituto dos Auditores Independentes do Brasil**

Supplemental guidance with further examples.

**South African Institute of Chartered Accountants (2)**

109. Guidance is also needed on who makes the decision to make use of the standard; i.e. is it the client or the auditor.

Response:

110. Non-authoritative guidance should be issued by the IAASB to address the issues above, including templates that may be used by the practitioners. Local regulators would also need to educate the market in terms of their requirements when it comes
to documentation in order to maintain audit quality for LCE audits. Non-authoritative guidance should also be prepared for the users as there may be certain expectations regarding less work effort, therefore reduced audit fees. The users need to be educated that the use of the LCE standard does not necessarily result in less work performed by the auditors.

8. Academics

Argentine institute of Auditing Professors

Response: In the first place, we understand that the complementary guides could be a support material. Secondly, we suggest analyzing the possibility of contemplating new complex situations that may arise and including them in new guides or extra support material.

9. Individuals and Others

Cristian Munarriz

Response: I think the most practical approach would be including separate requirements for complex estimates based on ISA 540 or making reference to ISA 540 requirements for complex estimates. Another option would be to make a brief reference to the need to apply enhanced procedures if a complex estimate is identified (clarifying that the existence of more than a few complex estimates is an indicator that the ISA for LCE is not appropriate), where examples of enhanced procedures may be included in an appendix to ISA for LCE or make reference to ISA 540 as supplemental guidance.

Rodoula Roussou

Response: See above under (a).

Response:
As discussed in question 1(a) the lack of flexibility and the prohibition to “top-up” will create challenges for transitioning to and from the ISAs for LCE, which is almost impossible to overcome. Unfortunately in the case of accounting estimates in an LCE, as mentioned in §132 of EM, will be quite common. These would be resolved if the “top-up” was permitted and the reference “…we conducted our audit in accordance with the ISA for LCE” was removed, since the level of assurance of an Audit of a Less-Complex Entity using the Standard under discussion is the same as in the ISAs. Also the lack of flexibility, in the cases that the entity meets the definition of a Less-Complex Entity in one year but not in the subsequent year, especially regarding the additional documentation needed in opening balances, is unjustified since both standards provide the same assurance.