



31 January 2022

Mr Willie Botha  
Technical Director  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 5th Avenue, 6th Floor New York,  
New York 10017 USA

Dear Willie,

**AUASB Submission on the IAASB's Exposure Draft of proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities**

- 1 The Australian Auditing and Assurance Standards Board (AUASB) is pleased to have the opportunity to comment on the IAASB's Exposure Draft of proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the proposed ED-ISA for LCE Standard). The AUASB is a non-corporate Commonwealth entity of the Australian Government, responsible for developing, issuing, and maintaining auditing and assurance standards in Australia. The AUASB's role and mandate extends to liaison with other standard setters and participation in global standard-setting initiatives.
- 2 In formulating its response, the AUASB has sought input from its constituents by hosting virtual roundtable meetings with and obtaining feedback from stakeholders representing assurance providers from the private and public sector, academics, regulators and the professional accounting bodies across Australia. AUASB members have also reviewed and provided comment on the ED-ISA for LCE at recent board meetings which have been incorporated into this submission.

***Overall comments***

- 3 The AUASB supports the concept of the IAASB developing a standalone standard targeted at LCE audits and considers that this would, if designed effectively, improve audit quality and compliance with the ISAs on LCE engagements. However, unfortunately, our analysis and engagement with stakeholders on the proposed ED-ISA for LCE Standard concluded that the proposed standard would not, in its current form, be widely supported in Australia. The AUASB's view is that the proposed standard does not adequately address the challenges in applying the ISAs on LCE engagements, and is more likely to increase, rather than decrease, the audit expectation gap, as outlined below.

***Feedback from Australian Stakeholders on the proposed standard***

- 4 The AUASB's outreach to socialise and seek feedback on the proposed ED-ISA for LCE Standard targeted a wide range of different stakeholders and we received many comments through our public roundtables, targeted communications with users of the



audit report and through formal submissions sent to the AUASB. In general, whilst there was great interest in LCE audits as a topic, we observed limited enthusiasm from our regular stakeholders to provide tangible support for this proposed standard and this led to a lower than usual level of feedback being provided to us on the specific questions raised by the IAASB in its proposed ED-ISA for LCE exposure draft.

- 5 Our outreach with Australian audit practitioners highlighted widespread adoption and acceptance of the existing suite of ISAs in our jurisdiction. Nonetheless many local practitioners consider the existing ISAs are overly complex in many areas and could be streamlined and improved for LCE audits. So overall Australian audit practitioners did express enthusiasm for the IAASB developing an alternative solution for LCE audits and the concept of a separate standalone standard applying to LCE engagements. However, as described further in our responses to the specific questions about the exposure draft, the AUASB's extensive outreach on the ED-ISA for LCE Standard noted significant challenges expressed by local auditors who work in the LCE market segment if they proceeded to adopt the proposed standard on their LCE engagements. Most Australian practices perform audits over a wide spectrum of clients from different industries with varying sizes and level of complexity, and they identified significant technical and operational challenges applying different standards for their LCE and non-LCE engagements, and thus limited positives in the proposed ED-ISA for LCE that has been exposed. We observed only a minor level of support for the proposed standard in its current form (predominantly by auditors who exclusively perform LCE audit engagements).

*The AUASB's conclusions on the proposed standard*

- 6 The AUASB's view is that, in its current form, the proposed standard does not meet the objective of providing significant improvements for LCE audits and provides limited utility to auditors. As described in more detail in our comments on specific elements of the proposed standard below, we consider that significant amendments to the proposed ED-ISA for LCE Standard are required and would be necessary before we could support the adoption of this standard in Australia.
- 7 We would urge the IAASB to reconsider whether a proposed standalone LCE standard should apply the same level of assurance and mandatory requirements contained in the full suite of ISAs, as this may be unrealistic to achieve in practice. Our outreach highlighted that the concept of reasonable assurance has evolved over the years and many now question the notion of whether an audit is an audit. AUASB stakeholders who operate in the LCE market segment considered that the proposed ED-ISA for LCE Standard is too heavily underpinned by the requirements of the ISAs, which is not seen to be a viable solution for the LCE market segment. Rigidly using the ISAs as a base constrains the effectiveness of the proposed LCE standard, as many existing requirements in the ISAs have been drafted with a more complex entity in mind.
- 8 The AUASB also considers that, if unchanged, the proposed ED-ISA for LCE Standard will have a detrimental impact on both the quality of LCE audits and the overall audit expectation gap based on the following factors:
- (a) We have major reservations that, even if auditors are aware of differences in how an audit may be conducted under the proposed ED-ISA for LCE



Standard, users of the audit may perceive the proposed standard as being a lesser quality or scaled down audit product, especially if the use of the proposed ED-ISA for LCE Standard needs to be explicitly identified in the auditor's report.

- (b) Whilst the IAASB has designed the proposed ED-ISA for LCE Standard using the core ISA requirements and concepts (such as professional scepticism and professional judgment) as a base for establishing the work effort of the auditor when performing an audit of an LCE, the AUASB's stakeholders were clear that, in its current form, many auditors and audit clients would inevitably expect the proposed standard would either explicitly or implicitly result in a reduced work effort being applied than would be expected under the full suite of ISAs, despite the proposed level of assurance being the same.
  - (c) Our outreach on the proposed ED-ISA for LCE Standard noted perceptions that regulators may not accept the use of this proposed standard on audits which are required by local statutory or regulatory requirements. Whilst we have been unable to obtain formal confirmation from regulators on this matter, it raises a major concern that, if implemented, a specific LCE standard may in practice have limited application in our Australian audit market.
- 9 Additionally, our work evaluating the IAASB's proposed ED-ISA for LCE Standard has reinforced the AUASB's view that the scalability and proportionality of the existing ISAs themselves need to be improved. We would support further consideration of an alternative approach which condenses or redesigns the requirements of individual ISAs themselves, for example by restructuring and rewriting requirements so those elements relevant to all audits (including LCE engagements) appear up front and additional requirements that apply to more complex audits or specific circumstances are clearly identified.

#### ***Comments on specific elements of the proposed standard***

- 10 Notwithstanding the AUASB's significant reservations about the current proposed ED-ISA for LCE Standard, we are still committed to the concept that the IAASB develops a standalone standard for LCE audits. We commend the IAASB for prioritising this project and the rapid timeframe in which the IAASB was able to develop and release the exposure draft. We also note feedback received from local practitioners that, if implemented, the design and structure of the proposed ED-ISA for LCE Standard would be considered a good reference tool or practice aid that supports an auditor's overall understanding of how an audit is performed.
- 11 The AUASB also recognises the different priorities that exist across the many jurisdictions that the IAASB standards are used, and regardless of our significant concerns with the current proposed standard there are likely to be many users and other IAASB stakeholders around the world who will express support for the rapid issuance of the ED-ISA for LCE Standard. Acknowledging this and to contribute to the debate on this project, we have provided feedback on specific elements of the proposed standard below.



*Challenges in applying the proposed standard as a standalone IAASB standard*

- (a) 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.

*Greater flexibility required when transitioning between the proposed LCE standard and the full suite of ISAs*

- (b) 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 have 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.

*Clearer criteria to guide the authority of the proposed LCE standard*

- (c) The AUASB’s stakeholders shared a strong preference that clearer, more objective criteria should govern the application of the proposed ED-ISA for LCE Standard. A consistent view we heard was that the authority of the proposed standard is too narrow and illogical, particularly because the proposed ED-ISA for LCE Standard is designed to achieve reasonable assurance and includes the same requirements as the ISAs, but still can’t be used, for example, on any listed entities or group audits. There were also concerns that the high level of subjectivity included in the different qualitative characteristics which currently govern the use of the proposed standard may lead to inconsistent application in practice and unintentionally undermine the confidence users have on LCE audits.



*Auditor reporting requirements in the proposed LCE standard*

- (d) Our stakeholders had mixed views about the approach taken in ED-ISA for LCE Standard with regard to auditor reporting requirements. However, there was a clear consensus that including the requirement in the proposed standard that the auditor's report state that the audit was conducted under a separate LCE standard means users of the auditor's report may perceive that the separate standard results in a lower level of assurance, a less robust audit approach and reduced audit effort. In turn this raised concerns about the use of the LCE standard resulting in an unintended expectation of reduced audit fees.

*Other implementation challenges associated with the proposed LCE standard*

- (e) Whilst not directly related to the proposed ED-ISA for LCE Standard, when conducting our local outreach on the exposure draft many Australian stakeholders commented on the unique independence issues that are present when performing LCE audit engagements and the negative impact this has on audit quality. There was specific feedback expressed that the current restrictions on the provision of non-assurance services that apply to LCE audits are too onerous and should be revisited by the IESBA.
- (f) The AUASB also considers that the length and complexity of the new ISQM 1 is a potential barrier to its understanding and application, particularly for small or sole practitioners who work predominately on LCE clients. The AUASB encourages the IAASB to consider how ISQM 1 can be more effectively incorporated in any proposed ED-ISA for LCE Standard, with specific considerations for small or sole practitioners more readily identified.
- 12 In addition to our comments on specific elements of the proposed ED-ISA for LCE Standard above, detailed responses to the specific questions posed in the ED-ISA LCE exposure draft using the IAASB's response template accompany this letter in Attachment 1.
- 13 Should you have any queries regarding this submission, please contact the AUASB Technical Director, Matthew Zappulla, via email at [mzappulla@auasb.gov.au](mailto:mzappulla@auasb.gov.au).

Yours sincerely,

W R Edge  
Chair



## ATTACHMENT 1

### RESPONSE TEMPLATE: PROPOSED ISA FOR LCE

<b>Name of Respondent:</b>	<b>Auditing and Assurance Standards Board (AUASB)</b>
<b>Country/Region/Jurisdiction:</b>	<b>Australia</b>



## AUASB RESPONSE: PROPOSED ISA FOR LCE

**General Comments on Proposed ISA for LCE**

*Response: [Please include here comments of a general nature and matters not covered by the questions below.]*

Please see the attached covering letter which includes the AUASB's general comments on the proposed ISA for LCE standard.

**Specific Questions***Section 4A – Overarching Positioning of ED-ISA for LCE*

1. Views are sought on:
  - (a) The standalone nature of the proposed standard, including detailing any areas of concern in applying the proposed standard, or possible obstacles that may impair this approach?

*AUASB Response:*

**Refer to paragraphs 3, 5 & 7 of the attached covering letter.**

The AUASB supports the concept of the IAASB developing a standalone standard targeted at LCE audits for global application. However, unfortunately, our analysis and engagement with stakeholders on the proposed ED-ISA for LCE Standard concluded that the proposed standard would not, in its current form, be widely supported in Australia. The AUASB's view is that the proposed standard does not adequately address the challenges in applying the ISAs on LCE engagements, and is more likely to increase, rather than decrease, the audit expectation gap.

Overall Australian audit practitioners did express enthusiasm for the IAASB developing an alternative solution for LCE audits and the concept of a separate standalone standard applying to LCE engagements. However, the AUASB's extensive outreach on the proposed ED-ISA for LCE Standard noted significant challenges expressed by local auditors who work in the LCE market segment if they proceeded to adopt the proposed standard on their LCE engagements. Most Australian practices perform audits over a wide spectrum of clients from different industries with varying sizes and level of complexity, and they identified significant technical and operational challenges applying different standards for their LCE and non-LCE engagements, and thus limited positives in the proposed ED-ISA for LCE Standard that has been exposed. We observed only a minor level of support for the proposed standard in its current form (predominantly by auditors who exclusively perform LCE audit engagements).

We would urge the IAASB to reconsider whether a proposed standalone LCE standard should apply the same level of assurance and mandatory requirements contained in the full suite of ISAs, as this may be unrealistic to achieve in practice. Our outreach highlighted that the concept of reasonable assurance has evolved over the years and many now question the notion of whether an audit is an audit. AUASB stakeholders who operate in the LCE market segment considered that the proposed ED-ISA for LCE Standard is too heavily underpinned by the requirements of the ISAs, which is not seen to be a viable solution for the LCE market segment. Rigidly using the ISAs as a base constrains the effectiveness of the proposed LCE standard, as many existing requirements in the ISAs have been drafted with a more complex entity in mind.

- (b) The title of the proposed standard.

*AUASB Response:*

No additional comment.

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

**AUASB RESPONSE: PROPOSED ISA FOR LCE**

*AUASB Response:*

No additional comment.

2. Do you agree with the proposed conforming amendments to the IAASB Preface (see paragraphs 39-40)? If not, why not, and what further changes may be needed?

*AUASB Response:*

The AUASB supports the proposed conforming amendments to the IAASB Preface to facilitate this new category of standard.

*Section 4B – Authority of the Standard*

3. Views are sought on the Authority (or scope) of ED-ISA for LCE (Part A of the proposed standard). In particular:

- (a) Is the Authority as presented implementable? If not, why not?

*AUASB Response:*

**Refer to paragraph 11(c) of the attached covering letter.**

The AUASB considers that the Authority of the proposed ED-ISA for LCE Standard poses several implementation challenges. Our stakeholders shared a strong preference that clearer, more objective criteria should govern the application of the proposed standard. A consistent view we heard was that the authority of the proposed standard is too narrow and illogical, particularly because the proposed ED-ISA for LCE Standard is designed to achieve reasonable assurance and includes the same requirements as the ISAs, but still can't be used, for example, on any listed entities or group audits. There were also concerns that the high level of subjectivity included in the different qualitative characteristics which currently govern the use of the proposed standard may lead to inconsistent application in practice and unintentionally undermine the confidence users have on LCE audits.

The AUASB acknowledges the difficulty in balancing the specific prohibitions while allowing professional judgement, however, considers that the Authority as presented has too many layers and allows for too much judgement that will lead to inconsistency in practice not only across jurisdictions, but within Firms themselves. Such an outcome is contrary to the public interest matter of promoting consistent practice and behaviours by auditors globally.

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

*AUASB Response:*

**Refer to paragraph 11(b) and (c) of the attached covering letter.**

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



**AUASB RESPONSE: PROPOSED ISA FOR LCE**

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's stakeholders shared a strong preference that clearer, more objective criteria should govern the application of the proposed ED-ISA for LCE Standard. A consistent view we heard was that the authority of the proposed standard is too narrow and illogical, particularly because the proposed ED-ISA for LCE Standard is designed to achieve reasonable assurance and includes the same requirements as the ISAs, but still can't be used, for example, on any listed entities or group audits. There were also concerns that the high level of subjectivity included in the different qualitative characteristics which currently govern the use of the proposed standard may lead to inconsistent application in practice and unintentionally undermine the confidence users have on LCE audits.

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

*AUASB Response:*

The Authority of the Standard along with the Supplemental Guidance is clear.

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

*AUASB Response:*

**Refer to paragraph 8(a) of the attached covering letter.**

We have concerns that the Authority set out in the proposed standard does not achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard, as different users of the audit may not fully appreciate or understand some of the criteria which govern the authority of the standard, especially as these are not intended to be specifically expressed in the proposed format of the proposed ED-ISA for LCE Standard audit report.

(e) Is the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions clear and appropriate?

*AUASB Response:*

The proposed role of legislative or regulatory authorities or relevant local bodies is clear and appropriate.

4. Do you agree with the proposed limitations relating to the use of ED-ISA for LCE? If not, why and what changes (clarifications, additions or other amendments) need to be made? Please distinguish your response between the:

(a) Specific prohibitions; and

(b) Qualitative characteristics.

If you provide comments in relation to the specific prohibitions or qualitative characteristics, it will be helpful to clearly indicate the specific item(s) which your comments relate to and, in the case of additions (completeness), be specific about the item(s) that you believe should be added and your reasons.

*AUASB Response:*

**Refer to paragraph 11(c) of the attached covering letter.**

The AUASB's stakeholders shared a strong preference that clearer, more objective criteria should govern the application of the proposed ED-ISA for LCE Standard. A consistent view we heard was that the authority of the proposed standard is too narrow and illogical, particularly because the proposed ED-ISA for LCE Standard is designed to achieve reasonable assurance and

**AUASB RESPONSE: PROPOSED ISA FOR LCE**

includes the same requirements as the ISAs, but still can't be used, for example, on any listed entities or group audits. There were also concerns that the high level of subjectivity included in the different qualitative characteristics which currently govern the use of the proposed standard may lead to inconsistent application in practice and unintentionally undermine the confidence users have on LCE audits.

Specifically, the AUASB does not support the blanket prohibition of listed entities and public interest entities (PIEs) using this standard. The AUASB considers that the blanket prohibition may unintentionally undermine confidence in the proposed standard, creates the perception that audits performing using the proposed LCE standard represent a different assurance product and takes limited account of the complexity of the entity. The proposed standard is designed to achieve reasonable assurance with the requirements underpinned by the ISAs with the work effort expected to be same under the separate standard. Accordingly, the AUASB supports that the proposed LCE standard could be applied on less complex listed entities and PIE audits, and believe that the IAASB could establish more specific criteria around which listed entities and PIEs may be included in the scope of the standard. For example, Australia has a large number of small listed entities in the start-up and extractive industries which would not be considered complex audit engagements where audit practitioners consider the proposed ED-ISA for LCE Standard could be applied.

The AUASB also does not support the exclusion of group audits in the proposed ED-ISA for LCE Standard. We received very strong feedback on this point from all types of Australian stakeholders. The AUASB considers that the blanket prohibition disallowing the use of the proposed ED-ISA for LCE Standard on group audits is not justified, especially in the case of small, non-complex components of a group engagement. Our investigations on this issue highlighted that not all group audits are complex, and the exclusion of group audit engagements, particularly considering the recent changes made to the revised ISA 600, will restrict the usefulness of this standard for many 'simple' groups. The AUASB considers that the IAASB could establish some clearer criteria around which groups may be included in the scope of the standard.

5. Regarding the Authority Supplemental Guide:

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

*AUASB Response:*

The AUASB considers that the Guide clarifies the Authority of the standard. However, the AUASB questions the need for such extensive supplemental guidance, particularly in relation to the qualitative characteristics, demonstrating just how challenging it is to operationalise the proposed ED-ISA for LCE Standard.

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

*AUASB Response:*

No additional comment

6. Are there any other matters related to the Authority that the IAASB should consider as it progresses ED-ISA for LCE to finalization?

*AUASB Response:*

No additional matters to raise.

**AUASB RESPONSE: PROPOSED ISA FOR LCE***Section 4C – Key Principles Used in Developing ED-ISA for LCE*

7. Views are sought on the key principles used in developing ED-ISA for LCE as set out in this Section 4C. Please structure your response as follows:
- (a) The approach to how the ISA requirements have been incorporated in the proposed standard (see paragraphs 74-77).

*AUASB Response:*

**Refer to paragraphs 5 - 7 of the attached covering letter.**

The AUASB recognises that the proposed ED-ISA for LCE Standard is not designed to result in less work effort, but rather that the new standard directs auditors to focus on those aspects of the audit that are most relevant to an LCE engagement. When seeking feedback on the proposed standard the AUASB noted it was considered by many Australian practitioners to be 'just a summary of the existing ISAs', which may be incorrectly perceived as an 'audit light' product by users who may then expect an associated reduction in audit fees.

Additionally, but importantly, our outreach highlighted that the concept of reasonable assurance has evolved over the years and many now question the notion of whether an audit is an audit. AUASB stakeholders who operate in the LCE market segment considered that the proposed ED-ISA for LCE Standard is too heavily underpinned by the requirements of the ISAs, which is not seen to be a viable solution for the LCE market segment. Rigidly using the ISAs as a base constrains the effectiveness of the proposed LCE standard, as many existing requirements in the ISAs have been drafted with a more complex entity in mind. As an example, while legislation may require an audit, for example a local sporting club or community organisation, the user needs for that audit may be different and need not be underpinned by the principles of all the ISAs, which have a much broader concept of public interest in mind.

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

*AUASB Response:*

No additional comments.

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

*AUASB Response:*

**Refer to paragraphs 11(e) and 11(f) of the attached covering letter.**

Some Australian stakeholders from the academic and small practitioner stakeholder groups, recommend that the IAASB liaise with IESBA to consider the appropriateness of Section 600 of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) and the current restrictions on the provision of non-assurance services to less complex clients. They recommend that the IAASB give greater attention to the unique independence issues that are present in audits of less complex entities.

The AUASB considers that the length and complexity of the new ISQM 1 is a potential barrier to its understanding and application, particularly for small or sole practitioners who work predominately on LCE clients. The AUASB encourages the IAASB to consider how ISQM 1 can be more effectively considered as part of the proposed ED-ISA for LCE Standard, with specific considerations for small or sole practitioners more readily identified.

**AUASB RESPONSE: PROPOSED ISA FOR LCE**

- (d) The approach to EEM (see paragraphs 85–91) including:
- (i) The content of the EEM, including whether it serves the purpose for which it is intended.
  - (ii) The sufficiency of EEM.
  - (iii) The way the EEM has been presented within the proposed standard.

*AUASB Response:*

Whilst the AUASB is generally supportive of the approach to EEM in the standard, the AUASB considers that there is some risk that EEM may not be sufficient to assist practitioners consistently apply the relevant ISA requirements included in the proposed ED-ISA for LCE Standard. This could be resolved by allowing auditors greater flexibility to consider using application material from individual ISAs in certain circumstances.

Additionally, while the standard has limited EEM, the IAASB has noted in the exposure draft materials that supplemental guidance may be issued. The AUASB cautions the IAASB against issuing too much additional supplemental guidance outside of the standard, as this is counterintuitive to the purpose and objective of the proposed ED-ISA for LCE Standard. Indeed, if supplemental guidance is necessary to understand and apply the standard, this raises a query if the EEM is sufficient. It also means that any such supplementary guidance must be issued at the same time as the standard, reducing the risk that the standard is applied incorrectly and/or inconsistently, which raises a resourcing risk for the IAASB.

The AUASB also raises a concern that in jurisdictions where the auditing standards are legislative instruments, the form of the EEM may not conform to legal requirements.

*Section 4D – Overall Design and Structure of ED-ISA for LCE*

8. Please provide your views on the overall design and structure of ED-ISA for LCE., including where relevant, on the application of the drafting principles (paragraph 98-101).

*AUASB Response:*

The AUASB supports the flow of the standard being in line with the process of an audit. We also received feedback from local practitioners that, if implemented, the design and structure of the proposed ED-ISA for LCE Standard would be considered a good reference tool or practice aid that supports an auditor's overall understanding of how an audit is performed.

*Section 4E – Content of ED-ISA for LCE*

9. Please provide your views on the content of each of **Parts 1 through 8** of ED-ISA for LCE, including the completeness of each part. In responding to this question, please distinguish your comments by using a subheading for each of the Parts of the proposed standard.

*AUASB Response:*

As noted in the AUASB's covering letter on the proposed ED-ISA for LCE Standard, we do not support the proposed standard in its current form, so therefore have not provided detailed comments in respect of each of the different parts of the proposed standard.



## AUASB RESPONSE: PROPOSED ISA FOR LCE

10. For **Part 9**, do you agree with the approach taken in ED-ISA for LCE with regard to auditor reporting requirements, including:
- (a) The presentation, content and completeness of Part 9.
  - (b) The approach to include a specified format and content of an unmodified auditor's report as a requirement?
  - (c) The approach to providing example auditor's reports in the Reporting Supplemental Guide.

*AUASB Response:*

**Refer to paragraph 11(d) of the attached covering letter.**

Our stakeholders had mixed views about the approach taken in proposed ED-ISA for LCE Standard with regard to auditor reporting requirements. However, there was a clear consensus that including the requirement in the proposed standard that the auditor's report state that the audit was conducted under a separate LCE standard means users of the auditor's report may perceive that the separate standard results in a lower level of assurance, a less robust audit approach and reduced audit effort. In turn, this raised concerns about the use of the LCE standard resulting in an unintended expectation of reduced audit fees.

The AUASB considers that if reasonable assurance is achieved and the audit work is proportionate to the nature of an LCE audit engagement, then there should be no need to premise this as an audit under a separate standard in the audit report. While supportive of transparency, the AUASB considers that this transparency may infer that an audit conducted using the proposed ED-ISA for LCE Standard is perceived as a second-rate assurance product, resulting in very limited acceptance of the standard.

The AUASB supports a prescribed form of report being in the requirements of the proposed ED-ISA for LCE Standard and supports further auditor's report examples being released by the IAASB in a separate supplemental guide.

11. With regard to the Reporting Supplemental Guide:

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

*AUASB Response:*

No further comment.

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

*AUASB Response:*

No further comment.

12. Are there any areas within Parts 1–9 of the proposed standard where, in your view, the standard can be improved? If so, provide your reasons and describe any such improvements. It will be helpful if you clearly indicate the specific Part(s) which your comments relate to.

*AUASB Response:*

**Refer to paragraph 10 of the attached covering letter.**



## AUASB RESPONSE: PROPOSED ISA FOR LCE

## Section 4F – Other Matters

13. Please provide your views on transitioning:

- (a) Are there any aspects of the proposed standard, further to what has been described above, that may create challenges for transitioning to the ISAs?

*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.

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

*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.

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

*AUASB Response:*

The AUASB considers the proposed approach to the future updates and maintenance of the Standard and related supplemental guidance to be appropriate. Considerations to update the proposed ED-ISA for LCE Standard should be made as and when there are ISA revisions on the same topic. This minimises gaps in the mandatory requirements in both proposed ED-ISA for LCE Standard and ISA and promotes consistency of application and audit quality.



## AUASB RESPONSE: PROPOSED ISA FOR LCE

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

*AUASB Response:*

The AUASB supports early adoption for any subsequent revisions in line with the underlying ISA.

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

*AUASB Response:*

The AUASB makes no comment.

17. In your view, would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion and for which the proposed standard has been developed? If not, why not. Please structure your comments to this question as follows:

- (a) Whether the proposed standard can, and will, be used in your jurisdiction.
- (b) Whether the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.
- (c) Whether there are aspects of the proposed standard that may create challenges for implementation (if so, how such challenges may be addressed).

*AUASB Response:*

**Refer to paragraphs 3 - 7 of the attached covering letter.**

18. Are there any other matters related to ED-ISA for LCE that the IAASB should consider as it progresses the proposed standard to finalization?

*AUASB Response:*

A small number of audit practitioners we engaged with about the proposed ED-ISA for LCE Standard identified potential implementation challenges associated with the rollout of the proposed standard relating to staffing and training. For example, staff applying only the standalone LCE audit standard may find their capability to apply the full suite of ISAs is not developed or diminished over time, impacting their career and unintendedly create two tiers of audit staff.

*Section 4G - Approach to Consultation and Finalization*

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

*AUASB Response:*

No further comment

20. Translations—recognizing that many respondents may intend to translate the final ISA for LCE in their own environments, the IAASB welcomes comment on potential translation issues noted in reviewing ED-ISA for LCE.

*AUASB Response:*

No comment.



## AUASB RESPONSE: PROPOSED ISA FOR LCE

21. Effective Date—Recognizing ISA for LCE is a new standard, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning at least 18 months after the approval of a final standard. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA for LCE.

*AUASB Response:*

The AUASB supports the proposed effective date being for financial reporting periods beginning at least 18 months after the approval of a final standard with early adoption permitted.

*Section 5 – Group Audits*

22. The IAASB is looking for views on whether group audits should be excluded from (or included in) the scope of ED-ISA for LCE. Please provide reasons for your answer.

*AUASB Response:***Refer to paragraph 11(c) of the attached covering letter.**

Further to our response on this issue in Question 4, the AUASB does not support the exclusion of group audits in the proposed ED-ISA for LCE Standard. We received very strong feedback on this point from all types of Australian stakeholders. The AUASB considers that the blanket prohibition disallowing the use of the proposed ED-ISA for LCE Standard on group audits is not justified. Our investigations on this issue highlighted that not all group audits are complex, and the exclusion of group audit engagements, particularly considering the recent changes made to the revised ISA 600, will restrict the usefulness of this standard for many 'simple' groups. The AUASB considers that the IAASB could establish some clearer criteria around which groups may be included in the scope of the standard.

23. Respondents in public practice are asked to share information about the impact of excluding group audits from the scope of ED-ISA for LCE on the use of the proposed standard. In particular:
- (a) Would you use the standard if group audits are excluded? If not, why not?

*AUASB Response:*

No comment.

- (b) Approximately what % of the audits within your firm or practice would be group audits that would likely be able to use ED-ISA for LCE (i.e., because it is likely that such group audits could be considered less complex entities for the purpose of the proposed standard) except for the specific exclusion?

*AUASB Response:*

No comment.

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

*AUASB Response:*

No comment.



**AUASB RESPONSE: PROPOSED ISA FOR LCE**

24. If group audits are to be included in the scope of ED-ISA for LCE, the IAASB is looking for views about how should be done (please provide reasons for your preferred option):
- (a) The IAASB establishes a proxy(ies) for complexity for when the proposed standard may be used ("Option 1 - see paragraph 169); or
  - (b) ED-ISA for LCE sets out qualitative characteristics for complexity specific to groups (Option 2 - see paragraph 176), to help users of the proposed standard to determine themselves whether a group would meet the complexity threshold.

*AUASB Response:*

The AUASB supports a 'bright line' determination of which groups are within the scope of the proposed standard.

25. Are there other ways that group audits could be incorporated into the scope of the proposed standard that is not reflected in the alternatives described above? For example, are there proxies for complexity other than what is presented in paragraph 169 that the IAASB should consider?

*AUASB Response:*

No comment.

26. If group audits are included in ED-ISA for LCE, how should the relevant requirements be presented within the proposed standard (please provide reasons for your preferred option):
- (a) Presenting all requirements pertaining to group audits in a separate Part; or
  - (b) Presenting the requirements pertaining to group audits within each relevant Part.

*AUASB Response:*

No comment.