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Ref: KLB/TN

07 December 2021

The Chair,  
Auditing and Assurance Standards Board  
PO Box 204  
Collins Street West  
Melbourne  
Victoria 8007  
Australia

Dear Chair,

**SUBMISSION – EXPOSURE OF THE IAASB’S AUDITING FOR AUDITS OF FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES (ISA FOR LCE); AND CONSIDERATION OF POSSIBLE ALTERNATIVE OPTIONS FOR AUSTRALIAN LCE AUDITS**

We appreciate the opportunity to provide comment on the *Exposure of the IAASB’s Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE); and Consideration of Possible alternative options for Australian LCE audits*.

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We support the International Auditing and Assurance Standards Board’s efforts to facilitate greater consultation in the standard setting process. In its current form while we believe that there is a need for consideration of a proportionate and market serving approach for the audit of Less Complex Entities the exposure draft does not provide a meaningful change to the requirements for an audit of Less Complex Entities. The exposure draft is a compilation of the requirements of the existing auditing standards excluding groups and complex estimates and does not change the work effort or expectations from the existing standards and consequently would have limited or no substantive impact on the execution of the audit of Less Complex Entities for our practice.

**Adelaide Brisbane Melbourne Newcastle Perth Sydney**

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Our detailed responses to the questions contained in the *Exposure of the IAASB's Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE); and Consideration of Possible alternative options for Australian LCE audits* are attached to this letter and would welcome the opportunity to engage in any further discussion of this topic with other interested parties.

Please contact either myself or Tim Nesbitt, Director - Audit & Accounting Technical (03 8612 9596 or [tim.nesbitt@pitcher.com.au](mailto:tim.nesbitt@pitcher.com.au)), in relation to any of the matters outlined in this submission.

Yours sincerely,



K L Byrne  
Partner



T Nesbitt  
Director, Audit & Accounting Technical

**Consultation Paper:** *Exposure of the IAASB’s Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE); and Consideration of Possible alternative options for Australian LCE audits*

<p><b>Request for Comments – Specific Questions</b></p> <p>1. Views are sought on:</p> <p>(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?</p>
<p><b>Response:</b></p> <p>The idea that a single complex estimate can move an entire otherwise non-complex audit out of the domain of the standard seems an overreaction and with the lack of real clarity as to what constitutes a non-complex estimate in ISA 540, it is incentivising auditors to treat an estimate which may be complex as non-complex to remain under the LCE standard. Further, the adoption will be hindered/limited by the potential cost of adopting the new standard and having to switch to the existing standards if something arises. This is not the cost of simply reassessing a single risk due to factors that arise but a complete change to the applicable audit standards, i.e. the planning, and completion requirements and frameworks and likely templates used by firms. This “risk” would likely reduce the take up of the new standard or mean its effectiveness is reduced when the time to complete increases rather than decreases as a result of potentially a single change to the audit in flight, which would have a reasonable chance of occurring.</p>
<p>(b) The title of the proposed standard.</p>
<p><b>Response:</b></p> <p>No comments</p>
<p>(c) Any other matters related to ED-ISA for LCE as discussed in this section (Section 4A)</p>
<p><b>Response:</b></p> <p>The LCE scoping matters described in the video, would preclude for example “Junior Miners” in Australia which are extremely simple businesses, basically cost centres but which are listed and therefore PIE. Also the amended PIE definition may include other less complex businesses which otherwise might be LCE. The wording of the standard is essentially removing the possibility of local administrators from broadening the LCE definition and consequently its take up in an area which may prove both appropriate and effective were it permitted. Eliminating an entity simply because it is a PIE does not appear to focus on complexity of the entity.</p>
<p>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? Please note: there is an overarching question at the end of Section 4F (question 17) to share their views about whether, overall, ED-ISA for LCE meet the needs of users and other stakeholders, and whether the proposed standard can, and will, be used. It is best to answer that question after having considered all relevant matters explained in this memorandum and the content of the proposed standard.</p>
<p><b>Response:</b></p>

<p>On the presumption that the standard remains as is then the confirming amendments are logical. However, the confirming amendments may require revision if other changes are made to the standard.</p>
<p>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?</p>
<p><b>Response:</b> While there is nothing to prevent the implementation of the standard as written, the authority and standard as written would limit the adoption of the standard and possibly reduce its effectiveness in providing an option for less complex entities to be executed in an efficient and effective manner. The restriction on PIE entities would eliminate a class of entities such as exploration companies which are extremely simple entities simply spending money on exploration, but which are listed on the stock exchange due to the source of their funds. These would actually be an ideal candidate to use an LCE standard. Local standard setters are not permitted to say they are using the standard if they amend anything in the authority so the standard's authority is encouraging departure from the standard and or is limiting its uptake.</p>
<p>b) Are there unintended consequences that could arise that the IAASB has not yet considered?</p>
<p><b>Response:</b> It may well limit the users of the LCE standard more than intended because of local definitions of PIE, further the focus on PIE is not consistent with the standard which focuses on complexity, there is a presumption that all PIE and listed entities are complex, this may well not be the case.</p>
<p>(c) Are there specific areas within the Authority that are not clear?</p>
<p><b>Response:</b> None</p>
<p>(d) Will the Authority, as set out, achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard?</p>
<p><b>Response:</b> Yes the concept of the authority is great for defining who cannot use the standard and should ensure a fairly consistent application, however, refer earlier comments on the actual Authority proposed.</p>
<p>(e) Is the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions clear and appropriate?</p>
<p><b>Response:</b> N/a we are not a regulatory body.</p>
<p>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</p>
<p><b>Response:</b> The prohibitions on Listed and PIE entities there are specific entities of both types in Australia which could otherwise be non-complex.</p>
<p>(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</p>
<p><b>Response:</b></p>

Refer above, a blanket prohibition on Listed, PIE and Group entities and in effect any entity with a complex estimate is essentially limiting the uptake too far.
. 5. Regarding the Authority Supplemental Guide: (a) Is the guide helpful in understanding the Authority? If not, why not?
<b>Response:</b> No comment.
(b) Are there other matters that should be included in the guide?
<b>Response:</b> No 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?
<b>Response:</b> No comment
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).
<b>Response:</b> The principles in concept are fine however, it is not an approach which will result in the outcome to which practitioners aspire which is a more efficient and effective approach to auditing LCEs. The inclusion of all the “shall” paragraphs in one place does not change the obligations.
(b) The approach to the objectives of each Part of the proposed standard (see paragraphs 78- 80).
<b>Response:</b> No comment
(c) The principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management (see paragraphs 81-84)
<b>Response:</b> No comment consistent with the existing standard.
(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. Please note that Section 4E below addresses the content of ED-ISA for LCE, including specific questions for respondents to provide their detailed comments on the content of the proposed standard.
<b>Response:</b> Essential Explanatory Material (EEM), the concept of the EEM should be sufficient for an LCE approach however, the provided EEM does not address the practical of how to efficiently address LCE, the guidance in 5.2.2 (f) still lacks any example or practical relationship to a set of facts which allows auditors to assess whether the LCE response would be considered appropriate.
8. Please provide your views on the overall design and structure of ED-ISA for LCE, including where relevant, the application of the drafting principles (paragraph 98-101).
<b>Response:</b> Design principle and structure appear appropriate.

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

**Response:**

Sections 1-8 - The replication of the “shall” paragraphs does not provide guidance on how to practically execute and what is appropriate for given fact patterns. There is no efficiency from the proposal as there is no reduction in work save for collating the requirements into one place.

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.

**Response:**

The requirements to form an opinion similar to the comments on sections 1-8 are that there is no substantive change to the requirements. The obligation to make separate reference to the LCE standard seems inconsistent as there is no reduction in requirements to complete the audit it simply says that if you have certain factors you cannot perform the audit under LCE but as there is no apparent advantage to performing an audit under LCE why would any auditor limit themselves to LCE it is unclear.

(b) The approach to include a specified format and content of an unmodified auditor’s report as a requirement?

**Response:**

Refer above, on the presumption the LCE standard is accepted it may create confusion as the level of assurance is the same but its done under a different standard, this would appear to create confusion rather than reducing confusion. This issue arises from the fact that there is no reduction in work required for the areas, the materiality and or assurance provided.

(c) The approach to providing example auditor’s reports in the Reporting Supplemental Guide.

**Response:**

Always useful to have proforma reports, subject to the comments above.

11. With regard to the Reporting Supplemental Guide:

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

**Response:**

In concept yes but the LCE proposal itself does not appear to provide any clear advantage over the extant standards.

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

**Response:**

N/a

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.

<b>Response:</b> N/a
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?
<b>Response:</b> N/a
(b) What support materials would assist in addressing these challenges?
<b>Response:</b> N/a
14. Do you agree with the proposed approach to the future updates and maintenance of the Standard and related supplemental guidance?
<b>Response:</b> Yes assuming the standard is adopted in the first instance.
15. For any subsequent revisions to the standard once effective, should early adoption be allowed? If not, why not?
<b>Response:</b> Unless there level of assurance is different then early adoption should be permitted but the audit report would need to make clear which version of the standard was being applied.
16. Should a separate Part on the ISA-800 series be included within ED-ISA for LCE? Please provide reasons for your response.
<b>Response:</b> Seems illogical, either it's a one stop shop for LCE or its not.
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>Response:</b> There does not appear to be any advantage to an auditor in adopting LCE as proposed, there is no reduction in work required, assurance delivered or any efficiency which could not be done under the extant standards. Consequently, there does not appear to be any logical reason why an auditor would report under the LCE while offering the same audit and potentially having to do more work if there is a change in circumstances which would mean LCE could no longer be used which could be easily dealt with under the existing standards.
(b) Whether the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.

<p><b>Response:</b> The proposal does not meet the needs of auditors, as there is no impact on the efficiency of delivering an audit for an LCE.</p>
<p>(c) Whether there are aspects of the proposed standard that may create challenges for implementation (if so, how such challenges may be addressed).</p>
<p><b>Response:</b> The issue of transition from an audit under LCE to a regular audit where facts change and the LCE is no longer permitted, seems to be inefficient and impractical for what might be a single change.</p>
<p>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?</p>
<p><b>Response:</b> Focusing on determining:</p> <ul style="list-style-type: none"> <li>• whether an alternate level of assurance for LCE is required,</li> <li>• whether a modular approach to audit could be possible with certain elements of an assurance service done to an audit level and some done to a review level to allow focus on the “key areas” while providing assurance at the right level for less important areas.</li> <li>• How the audit can truly be achieved in a commercial environment with examples based on fact patterns so that there is a base on what is expected.</li> </ul>
<p>19. What support and guidance would be useful when implementing the proposed standard?</p>
<p><b>Response:</b> Refer earlier comments the standard does not present as a proposition which adds value to the auditor.</p>
<p>In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below: 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.</p>
<p><b>Response:</b> Question as to why or if any audit firm should seek to transition at all.</p>
<p>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.</p>
<p><b>Response:</b> On the presumption that the standard is passed as is earliest release is advantageous for any firm who can see value it in. However, as it would not be mandatory its of limited relevance the date of release.</p>



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

**Response:**

Either the LCE standard is for non-complex entities or its not operations in 2 locations does not necessarily make the entity complex. This is an example of why would LCE as proposed be adopted, all the available options described in LCE could be done under the current standards without the limitations of the LCE on groups or complex estimates so why transition.

23. Respondents in public practice are asked to share information about the impact of excluding group audits from the scope of ED-ISA for LCE on the use of the proposed standard. In particular:

(a) Would you use the standard if group audits are excluded? If not, why not?

**Response:**

Refer comment above, there does not appear to be any advantage in the LCE standard so the exclusion of groups does not really seem to be a factor.

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

**Response:**

Undetermined at this time, however, unlikely to recommend using in its current form.

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

**Response:**

Undetermined at this time.

24. If group audits are to be included in the scope of ED-ISA for LCE, 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

**Response:**

Likely option 2 is preferable however, refer earlier comments as there is no efficiency dividend from LCE as proposed this question appears moot.

(b) ED-ISA for LCE sets out qualitative characteristics for complexity specific to groups (Option 2 - see paragraph 176), to help users of the proposed standard to determine themselves whether a group would meet the complexity threshold.

**Response:**

Providing user judgement would be preferable, however, there seems to be little substantive impact.

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?

<b>Response:</b> N/a
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>Response:</b> <b>Should be aligned to the existing approach refer b below.</b>
(b) Presenting the requirements pertaining to group audits within each relevant Part.
<b>Response:</b> Yes consistent with the LCE approach.