



## **Stellungnahme zum Entwurf eines Standards für die Prüfung von Abschlüssen von weniger komplexen Unternehmen (*ISA for LCE*)**

Die WPK hat mit Schreiben vom 28. Januar 2022 gegenüber dem International Auditing and Assurance Standards Board (IAASB) zum Entwurf eines Standards für die Prüfung von Abschlüssen von weniger komplexen Unternehmen (*Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities – ED ISA for LCE*) wie nachfolgend wiedergegeben Stellung genommen:

The Wirtschaftsprüferkammer (WPK) is pleased to take this opportunity to comment on the Exposure Draft: Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities.

Smaller, less complex entities are the backbone of the world's economy and make a critical contribution to global prosperity. Accordingly, they account for the great majority of audits globally. It is crucial for auditing standards to be suitable for audits of large, complex entities as well as audits of less complex entities (LCE audits). However, currently we cannot assess the acceptance and applicability of the standard under German law.

Currently, especially smaller audit firms who conduct LCE audits often suffer difficulties in applying the full ISAs in an appropriate and proportionate manner due to volume and complexity. We are aware that increasingly complex structures and transactions need to be addressed through the development and revision of the full ISAs. But reflecting this complexity in the ISAs could pose challenges for audits of less complex entities. Therefore, we fully support IAASB's intention to assist auditors in the conduct of audits of less complex entities.

Overall, we believe that the Exposure Draft (ED) is a major leap to support audit firms in conducting efficient and effective LCE audits.

The Exposure Draft is easy to be understood and be read fluently. The structuring of the ED's content to the flow of the audit supports the conduct of corresponding audits and increases the manageability of the standard.

From our understanding, all fundamental concepts and general principles as well as all material requirements from the full ISAs are included in the ED. Therefore, we are confident that applying the LCE Standard may enable the auditor to provide the same level of assurance as the full ISAs. Here, the provisions of the German Commercial Code still have to be examined with regard to its application after the final version of the LCE standard has been submitted.

We also consider the scope of the essential explanatory memorandum to be appropriate. Overall, we believe the concept of the draft to be coherent and sound.

Nevertheless, please let us express the following remarks:

- The concept of **qualitative characteristics** in the Authority is basically comprehensible. However, without further support and guidance we see the risk of inconsistent application across different jurisdictions, audit firms or even audit teams, as the assessment of whether a criterion is met may be interpreted differently. Accordingly, we recommend that additional guidance should be provided, especially regarding the entity's business activities, business model or the industry in which the entity operates.

Clear and precise criteria for application in the Authority of the LCE-Standard might also limit the risk of transitioning between ISA for LCE and the full ISA at a later point during the audit.

- We favour the concept of a **separate 'self-contained' standalone LCE Standard** where there is no need to directly reference back to the requirements or application material in the full ISAs. Relevant full ISAs cannot be used to 'top-up' gaps that have not been contemplated in the design of the ED. Instead in these cases the application of the ED is not permitted.

Nevertheless, we question whether an auditor using the LCE Standard is allowed to use full ISA requirements or application material in case he/she wants to voluntarily perform additional audit procedures.

- We are confident that applying the LCE Standard may enable the auditor to provide the same level of assurance as the full ISAs. However, there is a risk that an LCE audit may be perceived as an **'audit light'**. As soon as market participants consider an LCE audit as such an 'audit light' or 'second class' audit there will be additional pressure on the audit fees.

Therefore, we see the strong need to foster the acceptance of the ISA for LCE through public and educational work from the IAASB. Emphasis should be placed on explaining that the ED ISA for LCE contains all fundamental concepts, general principles and all material requirements (especially with regard to ISA 315 (rev. 2019)) of the full ISAs.

Independently of the introduction of an LCE standard, additional guidance on the scaling options of the full standards should be considered as an annex to ISA 300.

We hope that our comments below will be of use in the further discussion and will be pleased to answer any questions you may have.

## **Appendix**

### **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?**

We support the concept of a separate “self-contained” standalone LCE Standard where there is no need to directly reference back to the requirements or application material in the full ISAs. Relevant full ISAs cannot be used to ‘top-up’ gaps that have not been contemplated in the design of the ED. Instead in these cases the application of the ED is not permitted.

Nevertheless, we question whether an auditor using the LCE Standard is allowed to use full ISA requirements or application material in case he/she wants to voluntarily perform additional audit procedures.

- (b) The title of the proposed standard.**

Yes, we agree.

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

We are confident that applying the LCE Standard may support the auditor to provide the same level of assurance as the full ISAs. However, there might be a risk that market participants may perceive an LCE audit as an “Audit-Light”. Therefore, we see the need to foster the acceptance of the ISA for LCE through public and educational work from the IAASB.

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?**

Yes, we agree.

### **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?**

The concept of qualitative characteristics in the Authority is basically convincing. However, without further support and guidance we see the risk of inconsistent application across different jurisdictions, audit firms or even audit teams, as the assessment of whether a criterion is met may be interpreted differently. Accordingly, we recommend that additional guidance should be provided, especially regarding the entity's business activities, business model or the industry in which the entity operates.

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

We currently do not see any.

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

Please see question 3(a).

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

Yes, we assume that the Authority will inform stakeholders about the scoping of the proposed standard.

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

Yes, the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions 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**

No comment

**(b) Qualitative characteristics.**

No comment.

**5. Regarding the Authority Supplemental Guide:****(a) Is the guide helpful in understanding the Authority? If not, why not?**

Yes, the Guide is helpful in understanding the Authority.

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

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?**

No comment.

**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).**

We agree with the approach how the ISA requirements have been incorporated.

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

We agree with the approach to the objectives of each Part of the ED.

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

We agree with the principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management.

**(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.**

In our view the IAASB's approach to EEM is convincing for Audits of Financial Statements of Less Complex Entities and helps to make the standard easier to apply than the (full) ISAs in these audits.

### **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, the application of the drafting principles (paragraph 98-101).**

Overall, the draft seems easy to understand and reads fluently. The successful structuring of the ED's content to the flow of the audit supports the conduct of LCE audits and increases the manageability of the standard.

### **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.**

From our understanding, all fundamental concepts and general principles as well as all material requirements from the full ISAs are included in the ED. Therefore, we are confident that applying the LCE Standard will provide the same level of assurance as the full ISAs.

- 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.**

We agree with the approach taken.

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

We agree with the approach taken.

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

The draft contains only an example of an unmodified auditors' report. A modified auditors' report only results from the supplements guide. This is not binding and therefore has a different character.

- 11. With regard to the Reporting Supplemental Guide:**

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

Yes, the support material is helpful.

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

No 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.**

No comment.

**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?**

No comment.

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

No comment.

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

No comment.

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

No comment.

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

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.**

No comment.

- (b) Whether the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.**

We are convinced that the proposed standard meets the needs. Please see also question 1(c).

- (c) Whether there are aspects of the proposed standard that may create challenges for implementation (if so, how such challenges may be addressed).**

We do not see major challenges for the implementation.

- 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?**

Please see question 1(c).

### **Approach to Consultation and Finalization**

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

No comments.

- 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.**

No comments.

- 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.**

We ask the IAASB to finalise the ISA for LCE as soon as possible so that audit firms can apply it promptly. Voluntary early application should be permitted, provided this does not conflict with national laws.

### **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.**

No comment.

- 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?**

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?**

No comment.

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

No comment.

- 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.**

We prefer option 2 as this option relates to the current Authority.

- 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?**

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.**

We favour option (a).