



MALAYSIAN INSTITUTE
OF ACCOUNTANTS

31 January 2022

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

Dear Willie,

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD'S EXPOSURE DRAFT: PROPOSED INTERNATIONAL STANDARD ON AUDITING FOR AUDITS OF FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES (ISA FOR LCE)

The Auditing and Assurance Standards Board (AASB) of the Malaysian Institute of Accountants (MIA) welcomes the opportunity to provide its comments on the Exposure Draft, *Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)* by the International Auditing and Assurance Standards Board (IAASB).

We attach in Appendix 1, our responses to the questions found in the Exposure Draft. We hope our comments would contribute to further deliberation by the IAASB on the matter. If you have any queries or require clarification of this submission, please contact Simon Tay Pit Eu at +603 2722 9271 or email to simontaypiteu@mia.org.my.

Thank you.

Yours sincerely,

MALAYSIAN INSTITUTE OF ACCOUNTANTS

DR NURMAZILAH DATO' MAHZAN
Chief Executive Officer

EXPOSURE DRAFT, PROPOSED INTERNATIONAL STANDARD ON AUDITING FOR AUDITS OF FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES (ISA FOR LCE)

General Comments on Proposed ISA for LCE

Response: There is no further comment in addition to the responses to the specific questions in the ensuing sections.

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?

Response: Based on our various engagements, we have mixed views among our members. While, some support a standalone standard, others questioned the need for a separate standard if it is just an extraction of the existing ISAs without any major revamp on the procedures. At the same time, if this proposed standard is to be adopted, further clarity and guidance would be important given the level of judgment which may be involved based on the current description of qualitative characteristics of an LCE to ensure a consistent conclusion would be reached by the auditor in considering whether an entity meets the definition of an LCE or otherwise.

Given the fact that the LCE standard is substantially extracted from the current ISAs, there is this expectation that the auditors can and will refer to the present ISAs for additional information, guidance and examples, where necessary. In addition, while this may not be an issue for the current crop of practitioners (since they are already trained in the full ISAs), over time, we may end up with LCE auditors that are not as well versed with the ISAs and hence, additional implementation support in some of the areas are to be expected. The commitment by the IAASB to ensure the long-term implementation and maintenance of the standard is important.

- (b) The title of the proposed standard.

Response: We agree with the title of the proposed standard.

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

Response: Whilst it is the intention of the proposed standard to provide a reasonable assurance framework comparable to the ISAs as a standalone alternative, the matter discussed on the proposed standard using concepts and principles already used in an ISA audit would technically require an auditor to be equally familiar with existing ISAs to appreciate the use and applicability of the proposed standard. This raises the question if the proposed standard is truly standalone in the first place.

The IAASB may need to consider addressing some of the concerns raised by stakeholders regarding:

- what efficiencies or benefits are to be gained when using this new standard.

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- how pain points frequently encountered by practitioners in applying the ISAs (e.g., risk assessment, fraud procedures) have been eased, since the separate standard includes many of the core requirements of the ISAs.
 - how much judgment is required in determining whether the standard can be used on an audit, and how consistent application can be achieved.
 - to ensure that the proposed standard will eventually be adopted across various jurisdictions.
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?

Response: We agree with the proposed conforming amendments.

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?

Response: The authority is implementable in Malaysia.

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

Response: Due to understandably different territory limitations on the use of the proposed standard, there may not be a universal application of this standard internationally which may add to the confusion in the market especially if the other regions/countries as identified in the ED ends up going ahead with their country specific version of an LCE standard.

There is another issue that could be problematic. The IAASB is currently not proposing to allow any flexibility and requires the auditor to “check” that the application is still appropriate as the audit progresses. This may in practice be problematic, where, for example, a single complex item is encountered that was not clear at the engagement acceptance stage. This will also affect the adoption of the LCE standard in the market, as LCE practitioners would rather continue to adopt the full ISA 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. We suggest that a single matter alone should not trigger a move to the full ISAs. Instead, we would suggest for the IAASB to consider developing an alternative approach that would allow the auditor to supplement the LCE standard with a module especially designed to address that single matter on hand provided certain condition(s) are met.

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

Response: No, although as mentioned above, implementation may be different in different territories.

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

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Response: See above on potential confusion on comparability of audits performed under the proposed standard internationally. Stakeholders may also not be fully informed of the ramifications and implications of the proposed standard relative to the existing ISAs.

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

Response: The proposed role is clear but implementation guidance for those authorities may be required.

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.

Response: The limitations relating to group audits are further discussed below. There are practical challenges to be considered. We believe the standard should be principles-driven rather than merely looking at a corporate structure which in many cases can be relatively straightforward.

Furthermore, we believe the issue on accounting estimates can be clarified or examples should be added specifically, as it relates to fair value measurements where level 3 inputs are used. We believe there could be situations whereby an LCE holds investments where level 3 inputs are used to measure fair value, but otherwise meet all other qualitative characteristics to qualify as an LCE for purposes of this standard. In this regard we refer to our suggestion in Q3(b) above regarding a supplementary module that can be made available to deal with a one-off complexity.

In addition, we believe the characteristic in A.9 regarding the standard being inappropriate for entities in new and emerging markets, or entities in the development stage, is too restrictive in nature. There are many entities that happen to be in the development stage, but otherwise would qualify to use the standard. We believe that no matter what stage an entity is in, if it meets all of the other characteristics of an LCE, it should not be prohibited from using the standard.

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

Response: Yes.

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

Response: Not identified at present.

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

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Response: No.

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).

Response: While the ISA requirements have on the most part been incorporated into the proposed standard, they should be reworded in a manner that is suitable for the proposed standard such that they all fit together as a whole for a less complex audit instead of being copied and pasted from existing ISAs. Further, the Mapping of ISAs to LCE (in a separate document), while helpful to highlight the key differences, does appear tedious to the auditor because of the length.

More focus also needs to be placed on ensuring the reduced work effort is only that which is essential for an LCE audit. Specifically, more attention is needed to highlight where an auditor should do different procedures and where an auditor could avoid unnecessary procedures while still being able to opine under a reasonable assurance framework. Currently, these are not obvious in the proposed standard.

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

Response: The objectives are appropriate. At the same time more guidance and practical examples should be provided to flesh out the objectives to assist auditors who may generally be from smaller firms (or those who may not have been trained to use the full ISAs).

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

Response: The principles are appropriate. However, this is an area where more literature outside of the standard will also be well received especially when it pertains to an LCE audit.

- (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.

Response: The approach is appropriate although perhaps not sufficient as noted above.

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).

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Response: While, the design and structure are appropriate, some discrete section on dealing with risk assessments and the auditor's responses, fraud and going concern (these are major sections) may be helpful in term of navigation or reference.

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.

Response: We noted that in the area covering non-compliance with laws and regulations (NOCLAR), the IESBA also has its own set of rules. Hence, perhaps there can be a reference in this section as a reminder that there are also ethical responsibilities related to NOCLAR in the ethics code that must be adhered to.

We have also noted that when it comes to both considering and evaluating risks, this section may be too closely aligned to the ISA as many times with LCEs, there is not always the need to evaluate every risk, but rather consider how they impact your overall risk assessment. Risk assessment is a key area where we believe this standard can be much more scalable than the present ISA when it comes to an LCE audit; hence, further consideration should be given to tweak the requirements in this section. For example, in an LCE/ SMP environment, risk identification and assessment could be a single step process and the ISA 315 (Revised) threshold of "reasonably possible" should be revised to "appropriately low level".

We believe the stand back provision currently available in the ISAs could be just as effective in an audit of an LCE as it would for a more complex entity as it involves exercising of professional skepticism. The proposed standard does not seem to have placed an appropriate emphasis on this as a requirement in the concluding section.

Consideration could also be given to whether there should be an explicit statement in section 8.6.3 that failure to obtain a management representation letter could result in the auditor withdrawing from the engagement and not issuing an audit report, similar to the scope limitations noted in the full ISAs. This type of language might also be added to section 9.3.3 for situations when the auditor deems the financial statements to be misleading.

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.

Response: While we generally agree that the Part 9 for the auditor reporting requirements are appropriate per the proposed standard, there needs to be additional guidance to understand the implications of issuing a qualified opinion, a disclaimer and material uncertainty over going concern as to how it affects the "stand-back" approach contemplated by the proposed standard if the audit of the entity remains an LCE given the significant judgment and assumptions required by the auditor in arriving at those modifications/conclusions/opinions.

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The present approach where the “standard” report is included in the requirements, while additional examples and illustrations is presented in the Reporting Supplemental Guide should be the way forward.

11. With regard to the Reporting Supplemental Guide:
- (a) Is the support material helpful, and if not, why not?

Response: Yes the support material is helpful.

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

Response: Nothing further to add.

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.

Response: See Question 10 above.

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?

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.

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”.

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.

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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.

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

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.

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

Response: Yes we agree there needs to be continuous stakeholder engagement to understand and address practical challenges in applying the proposed standard.

A stable platform seems desirable although the members of the Institute was split on how often changes should occur. While some felt changes should be reviewed on a periodic basis, others thought that making changes as needed would result in major changes to the ISAs being properly reflected in a timelier fashion.

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

Response: Yes, we believe any subsequent revisions should allow for early adoption where appropriate.

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

Response: There needs to be a consistent application of the use for LCE audits regardless of whether the audit relates to a general purpose or special purpose financial statements as it is the underlying entity which is determined to be complex or less complex rather than the financial statements itself. Excluding ISA-800 series in the proposed standard may arguably fail to cover all circumstances of an LCE audit scenario, possibly creating gap that can lead to the proposed standard being unable to achieve its desired intention of providing an alternative approach.

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:

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- (a) Whether the proposed standard can, and will, be used in your jurisdiction.

Response: We believe that the proposed standard, with modifications, can be applied in our jurisdiction with guidance from MIA and also after consultation with other regulatory bodies.

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

Response: There may be concerns that the introduction of a separate standalone auditing standard for LCE may lead to two tiers of auditors as there may be audit firms which focus largely on these audits and vice versa. There may be a market perception that the audits of LCE are of lower cost and therefore, from a compliance cost and quality angle may be lower than that of the existing ISAs.

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

Response: As mentioned above in Question 1, the definition of LCE needs to be enhanced with more guidance to ensure a consistent application of determining an LCE. The determination of an LCE may still involve significant judgment based on the proposed guidance particularly in relation to the qualitative characteristics exhibited by the entity due to indicators, proxies or matters/circumstances by the auditor at the outset prior to detailed audit planning and risk assessment of the entity.

There was also concern about client expectations when the audits of LCEs using this proposed standard will inadvertently, lead to lower audit fees. Hence, it will be useful if the IAASB can assist the practitioners to clearly articulate the benefits of adopting this new LCE standard beyond just reading clarity (e.g., reduced work effort, simpler risk assessment process, improved audit quality etc) relative to the full ISAs. Otherwise, this could be a struggle for the practitioners when discussing fees proposition with their clients. Engagement with other stakeholders (users, preparers and third party users e.g. banks, tax authority) should be carried out in advance of the implementation of the LCE standards.

Where training and education for auditors (which will involve the evolution of audit syllabus) and development of tools/aids are split between two types of audits, there will also be a risk of fragmenting the profession and may cause auditors to be classified as LCE auditors and/or general auditors over time. The last thing the profession needs is becoming a 2-tier profession.

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?

Response: More guidance should be given to considerations in an outsourcing/shared service scenario and continuous adoption of digitisation and technology (e.g. automation) in businesses which may affect less complex entities, as this is becoming more common.

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Section 4G - Approach to Consultation and Finalization

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

Response: There should be a continuous feedback process allowed from stakeholders and practitioners to gather the status of implementation and also the practical challenges arising from the application of the proposed standard.

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.

Response: We have no specific comment.

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.

Response: We believe the proposed timing is appropriate for the effective date.

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.

Response: Group audits should be included because there may be many instances of less complex entities that are part of groups and auditors of those entities would require guidance on how to, for example, fulfil the requirements of component auditors. A supplementary module for consolidation will be needed in this respect.

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: While it would be used, there would be less complex entities that are part of groups which would not be able to benefit from the proposed standard.

- (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: We do not have reliable data on the approximate percentage of group audits which would be considered as less complex at this moment.

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

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Response: The term “less complex group” is not used in the proposed standard at present. It can be construed as a group that is made up of various less complex entities where each of these entities’ audit can be conducted using this proposed standard. In this instance, the holding company’s operations should also “be fairly straightforward”, ie, having all the typical characteristics of a less complex nature. The subsidiaries could be wholly owned or otherwise. An example could be that of a vessel charter group where each subsidiary may account for each of the vessels the group owns.

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.

Response: Option (a) is preferred as this will lead to more consistent treatment.

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?

Response: The IAASB could perhaps envision a situation where there is a group made up of less complex entities and base the proposed standard’s requirements and guidance on that scenario before adding on complexity to the group (up to a limit where the LCE standard can still be applicable) and consequently adding on to the proposed standard’s requirements and guidance that can be scaled accordingly.

Additional factors to consider, in terms of complexities, may include:

- Components only operate within one or few (similar or very similar) jurisdiction(s),
- There has been no significant use of component auditors/ little use of their work,
- When entities or business units have simple operations (e.g. a vessel charter group as in the earlier example)
- When the group consists of a parent company and wholly owned subsidiaries or a single entity with branches (the issue of multi-tier holdings and non-wholly owned subsidiaries where there is a need to account for non-controlling interests could be additional factors to be considered).

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.

Response: Approach (a) in the form of a supplementary module should be used so that auditors can more readily see the impact of group audits in a single location.