ACCOUNTANCY EUROPE.

Mr. Tom Seidenstein
Chair of IAASB

Submitted by email

Subject: Accountancy Europe comment letter to Exposure Draft International Standard on Auditing for Less Complex entities

Dear Mr. Seidenstein,

Accountancy Europe welcomes the opportunity to comment on the Exposure Draft of the proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (Revised) (ISA for LCE). However, we have identified several substantive considerations that merit careful attention.

We appreciate the IAASB's efforts to update the standard following recent developments in international auditing standards. In line with our previous responses, we believe that revisions to the ISA for LCE should carefully reflect the nature and circumstances of less complex entities, while maintaining an appropriate balance between relevance, proportionality and stability.

In this letter, we would like to share a few overarching observations on the proposed revisions, focusing on the areas we consider particularly important for the continued development and implementation of the ISA for LCE.

Firstly, regarding the maintenance of the ISA for LCE, we would like to reiterate our position expressed in January 2022 that changes to the ISAs should only be reflected in the ISA for LCE when they are relevant to less complex entities. Many revisions to the ISAs are driven by issues arising in audits of larger and more complex entities, which may not necessarily apply to LCEs. We therefore encourage the IAASB to consider not only whether a change is relevant, but also whether it is necessary in the context of less complex entities.

Regarding the timing of updates, we see two possible approaches for the IAASB to consider:

- Parallel updates: Assess the implications for the ISA for LCE alongside the development of revisions to the ISAs, with relevant amendments becoming effective at the same time, where possible. This would help maintain alignment between the standards and preserve equal value for users.
- Periodic consolidation updates: Assess the implications for the ISA for LCE as individual ISAs are revised, but introduce relevant and necessary amendments to the ISA for LCE periodically, through consolidated updates rather than following each ISA revision. This approach would provide greater stability and predictability for jurisdictions and practitioners, particularly during the initial adoption of the standard.

Both approaches have advantages and challenges. Frequent changes to the ISA for LCE could create uncertainty and additional implementation burdens for jurisdictions and practitioners, potentially

discouraging adoption of the standard. Stability and predictability are therefore particularly important at this stage, as jurisdictions assess whether to adopt the ISA for LCE.

At the same time, significant delays between the effective dates of corresponding revisions could have implications for audit quality if relevant improvements already in effect under the ISAs are yet to be reflected in the ISA for LCE.

We encourage the IAASB to determine which approach would best preserve equal value for users while taking account of these considerations and ensuring that the ISA for LCE remains relevant and proportionate for a typical LCE.

We also think the IAASB should introduce a mechanism for regularly reviewing the standard as a whole to ensure it remains proportionate. Incremental changes that are justified individually may accumulate over time, potentially making the standard more complex and less proportionate than originally intended.

Secondly, concerning going concern, we recognise its importance in all audits and appreciate the IAASB's efforts to strengthen the relevant requirements. Nevertheless, we suggest the IAASB to ensure that the proposed revisions remain proportionate to the circumstances of less complex entities, where management's processes and assessments are often less formalised.

We recognise the value of retaining the separate Going Concern section in the auditor's report in providing relevant and consistent information to users. However, we encourage the IAASB to consider whether its inclusion should be conditional to the requirements of the applicable financial reporting framework, particularly in circumstances where the framework does not require management to perform a going concern assessment.

We also note that the guidance in paragraph A55 of ISA 570 (Revised 2024) has not been reflected in the proposed ISA for LCE. This paragraph recognises that, where management has not extended its assessment period, additional information obtained from management or those charged with governance may support the appropriateness of using the going concern basis of accounting. If this §A55 is not added, auditors may not obtain updated projections and will have to consider the implications for the audit (cf Paragraph 7.4.1A), which may lead them to qualify their opinion, while auditors could have obtained sufficient information to support the appropriateness of management's use of the going concern basis of accounting through a discussion with management.

We believe going concern topic is particularly relevant for less complex entities, where management may not routinely prepare detailed projections covering twelve months from the date of approval of the financial statements. We therefore encourage the IAASB to adopt the wording of ISA 570 (Revised), Going Concern, Paragraphs 3 and 4 of the Introduction (Responsibility for Assessment of the Entity's Ability to Continue as Going Concern – *Responsibilities of Management*).

This would allow auditors to take into account the entity's circumstances while obtaining sufficient appropriate audit evidence. Otherwise, without the explanations provided in Paragraph 4 of ISA 570 (Revised), it is unclear why in Paragraph 1.4A of ISA for LCE states that "*The preparation of general-purpose financial statements requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.* "

Thirdly, concerning fraud, we suggest the IAASB to ensure that the requirements and explanatory material reflect the circumstances and fraud risks of typical LCE audits. Greater emphasis should be

placed on management override of controls and other relevant fraud risks, while maintaining a proportionate approach.

Finally, we emphasise the importance of preserving the simplicity, conciseness and coherence of the ISA for LCE as a standalone standard. Revisions should retain its process-based structure and avoid unnecessary structural changes that disrupt its flow and clarity. Alignment with the full ISAs should not come at the expense of the standard's internal consistency.

Should you wish to discuss any aspect of this letter, please contact Endrin Bitraj at endrin@accountancyeurope.eu.



Eelco van der Enden

Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 49 professional organisations from 35 countries that represent close to **1 million** professional accountants, auditors and advisors. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

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