

Ref#775903

08 August 2024

The Director Standards
Independent Regulatory Board for Auditors (IRBA)
PO Box 8237
Greenstone, 1616
South Africa

By e-mail: standards@irba.co.za

Dear Mr Vanker,

Position of the South African Institute of Chartered Accountants (SAICA) on the adoption of the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the ISA for LCE) in South Africa

We appreciate the opportunity to provide input into the Independent Regulatory Board for Auditors (IRBA)'s deliberations regarding the adoption of the ISA for LCE in South Africa. We commend the IRBA for its extensive outreach on this topic.

As requested, we provide you with SAICA's position regarding the adoption of the ISA for LCE in South Africa.

Based on the research conducted by us, which included consideration of the views expressed by SAICA members and associates from various membership constituencies, SAICA does not support adoption of the ISA for LCE in South Africa.

The outcome of our research and the reasons for our conclusion are set out in this document. The SAICA Assurance Guidance Committee has approved this submission.

We include the following attachments with this paper:

- Appendix 1 – Survey results: Consultants and Service Providers
- Appendix 2 – Survey results: Members in Business including CFOs
- Appendix 3 – Survey results: Regulators
- Appendix 4 – Survey results: Practitioners
- Appendix 5 – Survey results: Academia
- Appendix 6 – Survey results: Training Officers and Trainees.
- Appendix 7 – Analysis of the SAICA comment letter on the first IAASB exposure draft on the ISA for LCE

Please do not hesitate to contact us should you wish to discuss any of our comments.

You are welcome to contact Thandokuhle Myoli (Thandokuhlem@saica.co.za).

Kind regards

Thandokuhle Myoli
SAICA Executive: Audit and Assurance

1. Background

1.1. The International Auditing and Assurance Standards Board (IAASB) published the ISA for LCE in December 2023. SAICA was requested by the IRBA Standards team at the end of January 2024 to provide our position regarding the adoption of the ISA for LCE in South Africa.

1.2. In formulating its response, SAICA considered the following:

- Analysed the SAICA submissions on the IAASB exposure drafts related to the ISA for LCE to assess whether SAICA's main concerns had been addressed in the final approved standard.
- Performed an impact analysis regarding adoption of the standard across the SAICA membership value chain.
- Obtained the views (across the SAICA membership value chain) regarding additional local scoping restrictions (if any), should the standard be adopted for use in South Africa.
- Compared the International Standards on Auditing (ISAs) to the ISA for LCE, using the comparison that was performed by IAASB staff at the time that the first ISA for LCE exposure draft was published as a basis.
- Considered piloting the ISA for LCE standard on "live" audits.

2. Research conducted by SAICA

2.1. We describe the outcome of our research under the following headings:

- Analyses of the SAICA submissions on the IAASB ISA for LCE exposure drafts.
- Impact analysis based on roundtable discussions and surveys conducted across the SAICA membership value chain.
- Views from participants at the SAICA roundtable discussions regarding additional quantitative thresholds to be imposed, should the standard be adopted for use in South Africa.
- Comparison of the objectives and requirements of selected ISAs to the equivalent paragraphs in the ISA for LCE.
- Technical comments on the ISA for LCE: Standard-setting/guidance activity that SAICA foresees would be required if the standard is adopted in South Africa.
- Piloting the standard on live audits.

2.2. It was important to us that our members should express informed views on the standard when asked for their opinions. In this regard, we created awareness of the standard in conjunction with doing our research. This involved the following:

- **SAICA TechTalk events:** SAICA addressed [TechTalk | February 2024](#) attendees on 29 February 2024 and 28 March 2024 [TechTalk | March 2024](#) where we provided overviews of the standard, and where we informed attendees of the discussions currently taking place in South Africa regarding adoption of the standard.
- **Social media platforms:** A short overview of key features of the standard was posted on SAICA's LinkedIn page to inform our members about what they can expect when performing an audit using ISA for LCE. We refer to the links of the social media posts [ISA for LCE: FAQs](#); [ISA for LCE: What you need to know](#).
- **ISA for LCE article in the media and Accountancy SA magazine:** A media article was published in March 2024 which highlighted that the profession was currently debating the adoption of the standard in South Africa. [Introduction to ISA for LCE](#) article was published in the May issue of ASA magazine, which highlighted what is the ISA for LCE, why the standard is important and key high-level features of the standard.
- **SAICA ISA for LCE FAQs:** SAICA published a set of questions and answers on the standard. The questions and answers are aimed at socialising the standard to someone who has not yet had

the opportunity to read the standard. The FAQs do not, and did not intend to, provide implementation guidance on the standard. We refer to the link for the published SAICA ISA for LCE FAQs [Technical resources | SAICA](#)

3. Analyses of the SAICA submissions on the IAASB ISA for LCE exposure drafts

3.1. We share the analysis of SAICA's submission on the first IAASB ISA for LCE exposure draft in Appendix 7 to this position paper. Similar key concerns were raised during the commenting process on proposed Part 10 to the ISA for LCE and as such, we have not included a separate analysis regarding the Part 10 exposure draft.

3.2. The table below summarises the main concerns raised by SAICA on the proposed ISA for LCE ED issued July 2021 and the status thereof.

No.	Main concerns raised in SAICA comment letter	Status of the main concerns raised in comment letter
1.	The standard in its current format reads like a summary of the requirements of the ISAs. There are no major differences between the ISA for LCE and ISAs and it is unclear as to how one would audit differently from the ISAs.	The comment raised in the comment letter remains valid. The view was raised again at the various round table discussions that the ISA for LCE is a summary of the full suite of ISAs, which can serve as guidance to practitioners on how to document audit work performed for less complex entities.
2.	Impact of the LCE standard on the training environment for aspiring accountants/auditors. The introduction of the LCE standard may require firms to maintain two audit methodologies and could have cost implications.	The comment raised in the comment letter remains valid. There is a risk of increased training costs for firms to train on two different standards. See paragraph 4.4.6.2 of this submission.
3.	Reservations were also raised that a separate LCE standard may be perceived as less robust than the current suite of ISAs.	The comment raised in the comment letter remains valid. Members expressed their concern that an LCE audit may be perceived as an audit of less quality. See paragraph 4.4.4.2 and 4.4.5.4 of this submission.
4.	In South Africa, some local software providers have already developed audit methodologies (using the ISAs) for entities that would fall in the scope of the proposed ISA for LCE.	The comment raised in the comment letter remains valid. There are audit firms who currently have their own audit methodologies that apply to audits of less complex entities based on the current suite of the ISAs. Furthermore, members are also of the opinion that there will be increased software development costs as a result of the adoption of the ISA for LCE. See paragraph 4.4.4.2 of this submission.
5.	Globally, the audit profession faces the challenge of market concentration, specifically for PIE audits. Firms that are predominantly exposed to audits of LCEs may not develop the skills required to audit PIEs due to the lack of exposure in applying the ISAs. This may also create competency challenges where exposure to both standards may not be necessarily attainable at all firms.	The comment raised in the comment letter remains valid. The were concerns raised at the roundtable discussions on whether it will be practical for a trainee to obtain exposure on both an LCE audit and the ISAs. It was also noted that adoption of the LCE standard may create a two-tier profession. There is also a risk that there could be preference for firms that perform ISA audits over audit firms that are predominantly exposed to audits of LCE. See paragraphs 4.4.6.2 of this submission.

6.	<p>SAICA's view is that the LCE standard is based on the principles of the ISAs and that there does not appear to be any reduced work effort for the practitioners that arises from applying the LCE standard. In this regard, we are of the opinion that consideration of the inclusion of the LCE standard as a special considerations' standard in the main suite of ISAs would be more appropriate to assist auditors of LCEs rather than a separate stand-alone standard as the current draft is not detached from the ISAs.</p>	<p>The comment raised in the comment letter remains valid. It was voiced at the roundtable discussions that the ISA for LCE does not provide relief for the auditor. The standard appears to be more of a summary of the ISAs and could be perceived as guidance on audits of LCE. See paragraphs 4.4.4.1 and 4.4.6.2 of this submission.</p>
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4. Impact analysis based on roundtable discussions and surveys conducted across the SAICA membership value chain

- 4.1. A targeted approach was followed regarding the invitations to the roundtable discussions: Individuals, from the various constituency groups, that participate on SAICA structures were invited to the roundtable discussions. An open invitation to participate in the roundtable discussions was extended to all SAICA members and associates through the SAICA TechTalk. SAICA also extended an open invitation to the members of the IRBA's Committee for Auditing Standards to participate in the roundtable discussions.
- 4.2. SAICA held six round table discussions with the different constituencies. These roundtables were chaired by a CEO of one of the Small Medium Practices who is also the chairperson of the SAICA National Small and Medium Practices Interest Group.
- 4.3. The roundtables were structured as follows: The SAICA team provided a brief overview of the standard, followed by a discussion lead by the chairperson. Questions similar to the questions contained in the survey (see next paragraph) were asked of the participants.
- 4.4. An electronic survey was circulated to the participants at the roundtable after the conclusion of each discussion. A number of detailed questions were asked, aimed at assessing the impact of adoption of the ISA for LCE (or not adopting the ISA for LCE) on the constituency group.
- 4.5. The table below provides details of the various roundtable discussions including the responses received on the surveys conducted.

No.	Constituency Group	Date of roundtable discussion	Number of participants at the round table discussions	Number of responses received on the survey
1	Consultants and Service Providers	2 April 2024	10	9
2	Members in Business including Chief Financial Officers	4 April 2024	12	5
3	Regulators [<i>SARS, CIPC, DoJ, LSSA, SARB, Investec Bank, Fidelity Fund, FIC, FSCA, PPRA, Medical Schemes</i>]	9 April 2024	10	3
4	Practitioners	10 April 2024	31	8
5	Academics	15 April 2024	41	9
6	Training Officers and Trainees	16 April 2024	38	8

4.6. Consultants and Service Providers

Comments raised during the roundtable discussion:

4.6.1. The following key comments were made at the roundtable discussion:

- Some of the consultants indicated that their clients were excited about an LCE-specific auditing standard. This excitement, however, originated from a misunderstanding of the standard in its entirety. They noted that people perceive the standard to result in less audit work, that it would result in the audit service being more profitable due to a perception that audit work that will be completed more efficiently under the LCE standard if compared to the ISAs.
- There is no reason to adopt the standard, an audit is an audit.
- Scalability is already built into the ISAs. There is no relief in terms of the amount of audit work to be done and time spent on the audit.
- There might be pushback (if the standard is not adopted in South Africa) from members who may not have read the standard.
- Practically, it is not clear whether the standard will be beneficial to the market.
- The standard will create confusion due to the standard being called “less complex” however there is no change to the nature of what will be done on the audit and no change in the level of assurance.
- The country has had enough corporate scandals with added pressure on the audit profession and we need to be seen as stepping up rather than stepping down.
- If the standard is adopted in South Africa, it may not be applied in the market.
- The consultants’ perception is that the ISAs are currently not being applied correctly and consistently and adoption of the LCE standard will not assist in this regard.

Responses received on the survey:

4.6.2. Refer to Appendix 1 – *Consultants and Service Providers* for the responses received on the survey questions.

4.7. Members in Business including Chief Financial Officers

Comments raised during the roundtable discussion:

4.7.1. The following key comments were made at the roundtable discussion:

- Some participants expressed a need to understand why South Africa should adopt the ISA for LCE. Members sought clarity as to whether the standard will result in understanding the full suite of ISAs

with less pages, enquired whether there was benefit for the auditors and businesses and whether an audit in terms of the ISA for LCE would be less onerous than an ISA audit.

- A company may find itself being audited in accordance with the ISA for LCE in one year and the next year the company may be involved in complex transactions then the assessment as being a LCE may change.
- There is no clear benefit for the profession, which may have an impact on clients and businesses. Participants recommended that the IRBA should work with what is currently available (i.e. the ISAs) and make it less complex.
- There is a need for relief of overregulation of certain businesses. For example, increasing the public interest score.
- There is no perceived cost benefit for either businesses or auditors. The standard could be another document in the profession that creates uncertainty and pressure to the profession. It will not serve the purpose of mitigating risks and protecting the profession in the right manner.

Responses received on the survey:

4.7.2. Refer to Appendix 2 – *Members in Business including CFOs* for the responses received on the survey questions.

4.8. Regulators

Comments raised during the roundtable discussion:

4.8.1. The following key comments were made at the roundtable discussion:

- Participants believed that there could be benefit in adopting the standard in South Africa in that it achieves reasonable assurance for audits of less complex entities. However, there is concern that from audit clients there could be an expectation that there would be a reduction of audit fees if the ISA for LCE was applied.
- Given the possible benefits of the standard and particularly for the small-medium practices (auditors providing reasonable assurance using a standard that is focused on a particular type of entity), some regulators expressed support for the implementation of the ISA for LCE.
- Regulators will only formalise their stance regarding the ISA for LCE if the standard is adopted for use in South Africa.

Responses received on the survey:

4.8.2. Refer to Appendix 3 – *Regulators* for responses received on the survey questions.

4.9. Practitioners

Comments raised during the roundtable discussion:

4.9.1. The following key comments were made at the roundtable discussion:

- The standard is perceived to be a summary of the ISAs, a quick reference guide to the ISAs and is not in any way changing anything in the audit. Overall, the question that came through from the members is whether there is a need to adopt the standard when the current ISAs allow for scalability based on the size and complexity of the entity. The view was expressed that the ISA for LCE may create a lower grade audit in the market and ultimately lower the standards of the profession. The standard further creates challenges because of the undue complexity around who it will be applicable to.
- There is concern regarding the perception the standard will create in the market to the banks and institutions that require audited financial statements.
- The audit profession is already under a lot of scrutiny and there is negative perception that an LCE audit may be an audit of a lesser audit quality.
- Many of the audit firms have already developed their own audit methodologies to apply to less complex entities and it would be appreciated to have additional scalability guidelines regarding the existing ISAs.
- The possibility of cost implications and audit expectation gap where you find an auditor having determined at the initial stage that ISA for LCE will applied, then later revert to the normal ISAs when complexities have been encountered.
- If you have firms that have a majority of LCE audits, it was questioned whether trainees would have received sufficient training for the firms to sign off trainee training contracts and it was questioned whether this will be a new competency that will have to adjusted for in the training programme.
- Consideration needs to be given regarding software costs that need to be funded to accommodate a new standard. These costs may not be recovered as audit clients may not be willing to pay the same audit fee for an LCE audit, thus not beneficial to adopt.
- There could be a challenge in explaining to clients that an LCE audit is the same amount of audit work and same risk for the auditor, therefore it does not mean less audit fees because there is an expectation of less work due to the word “less” in Less complex entities.

Responses received on the survey:

- 4.9.2. Refer to Appendix 4 – *Practitioners* for responses received on the survey questions.

4.10 Academics

Comments raised during the roundtable discussion:

- 4.10.1. The following key comments were made at the roundtable discussion:

- The overall response received was why is the ISA for LCE needed in South Africa and would the standard not create more confusion and widen the audit expectation gap. If we follow the correct approach and perform the risk assessment procedures in accordance with the ISAs the auditor should be in a position to perform an audit with audit work that is appropriate to a less complex entity as a result of the lower risk assessment. There is hesitation to adopt the standard because the expectation is to prepare students from an audit perspective to be able to understand and apply the ISAs to the full extent and it is not clear how the ISA for LCE will be a useful educational tool.

If there is no understanding of the full ISAs, one would not be able to contextualise the content of the ISA for LCE.

- Adoption of the standard will add to the current complexities that universities are facing in assisting the students understand the different requirements (audit/review) based on the various classifications of companies. There is also a syllabus overload in the academic space, which introducing the ISA for LCE will be adding to. It was also noted that adoption of the standard could have an impact on the duration of the studies, which may have an impact on the pipeline and attractiveness of the profession.
- Other comments related to smaller firms that may already be falling short on audit quality and therefore we run the risk of experiencing the same audit quality issues due to incorrect application of the LCE standard. Further the market may perceive this as a lesser quality audit even though it provides the same level of assurance.

Responses received on the survey:

4.10.2. Refer to Appendix 5 – Academia for responses received on the survey questions.

4.11. Training Officers and Trainees

Comments raised during the roundtable discussion:

4.11.1. The following key comments were made at the roundtable discussion:

- Members that were part of this roundtable discussion were concerned about the negative impact the standard may have on small practitioners and the industry in its entirety. The standard is perceived to be more of a guidance document that could have been used by the IRBA to provide guidance on the ISAs to assist practitioners. The members further referred to the Australian feedback statement on their non-adoption of the standard. Participants shared the same sentiments that were contained in the Australian feedback statement.
- The initial set up, comparison and re-looking at the training programme would be time-intensive and will have high-cost implications.
- In the long run, the standard may impact recruitment of staff for the firms that will have a majority of LCE audits as opposed to the firms that will have a balance of the normal ISAs and LCE audits. This was raised in the context that staff may have preference to be skilled in both types of audits rather than be skilled in LCE audits only.
- There was a question raised regarding when students come through the pipeline, would there be an expectation that the student would have knowledge of both the LCE standard and the full suite of ISAs, or they would only be expected to know either of the standard. Should it be the latter and the standard is adopted in South Africa, we run the risk of having two tier profession. With that said, we are currently struggling as a profession to recruit enough trainees and there is a huge concern about the impact the standard will have on the pipeline.
- With regards to training contracts, would it be practical for a trainee to get exposure in both the LCE standard and a normal ISAs audit.
- In practice training offices see trainees struggling with application of the different methodologies (audits vs reviews vs compilations). If one added an additional standard, not only is it creating an

expectation gap with audit clients but increases confusion in trainees and in the training environment and may contribute towards the shrinking pool of trainees. We are in a compliance environment with increased requirements and regulations, and this will pose a challenge in becoming more efficient when trainees struggle to understand the current standards and the application thereof.

- In future, when there are updates to the full ISAs, will there be corresponding updates made to the LCE standard. As an analogy, practitioners face the challenge of not having corresponding updates to the IFRS for SME when there are updates made to IFRS.
- With regards to competition in the market, will a firm that elects not to apply the LCE standard be more competitive and attractive than a firm that elects to apply the LCE standard.
- Independent reviews will over time become obsolete because there will be an audit option that provides more assurance and possibly for a lesser fee.
- While the participants noted the benefits of implementing the LCE standard such increased efficiency on the audit, the cost of implementation to audit firms, universities, the industry as a whole, training costs on the two standards will be significantly high.
- Overall, it was expressed that auditing is auditing and the LCE standard should be considered as a guide on how the audit work performed on the audit of a less complex entity should be documented.

Responses received on the survey:

- 4.11.2. Refer to Appendix 6 – Training *Officers and Trainees* for responses received on the survey questions.

5. Views from participants at the SAICA roundtable discussions regarding additional quantitative thresholds to be imposed, should the standard be adopted for use in South Africa

5.1. We summarise the survey responses obtained from participants at the SAICA roundtable discussions regarding additional quantitative thresholds to be imposed, should the standard be adopted for use in South Africa:

Consultants and Service Providers	MIB and CFOs	Regulators	Practitioners	Academics	TOs and Trainees
<p>Question: If the ISA for LCE is adopted in South Africa, would you propose the introduction of quantitative thresholds regarding the application of the standard in South Africa? (Yes/No)</p> <p><i>[Part A.4. of the ISA for LCE has reference:</i></p> <p><i>A.4. Determining quantitative thresholds assists in the consistent and appropriate use of the ISA for LCE in a jurisdiction. This section anticipates that legislative or regulatory authorities or relevant local bodies with standard setting authority will determine quantitative threshold(s) for use of the ISA for LCE in their respective jurisdictions.]</i></p>					
44% Yes 56% No	50% Yes 50% No	50% Yes 50% No	100% No	67% Yes 33% No	60% Yes 40% No
<p>Question: If "Yes", please indicate such thresholds</p>					
<ul style="list-style-type: none"> Revenue thresholds and beneficial owner data. The use of the PI score thresholds. The application of the PIE definition with lower monetary values. 	<ul style="list-style-type: none"> The use of the PI score thresholds to determine whether an audit could fall in the ambit of an LCE. 	<ul style="list-style-type: none"> This should be determined by regulators through regulation that allows for input from stakeholders, where applicable. 	<ul style="list-style-type: none"> N/A <p>(All respondents answered "No" to the first question.)</p>	<ul style="list-style-type: none"> Turnover of less than R100million. Consider spreading thresholds over a period, e.g. 5 years Amount of 3rd party liability of an entity Average number of employees employed by an entity 	<ul style="list-style-type: none"> The use of the PI score thresholds to determine whether an audit could fall in the ambit of an LCE.
<p>Question: If the ISA for LCE is adopted in South Africa, would you propose the addition of a class of entity to the list of prohibited entities in Part A.1 (c) of the standard?</p>					

[Part A.1. and A.2 of the ISA for LCE have reference:

A.1. The ISA for LCE shall not be used if:

...

(c) The entity falls into one of the following classes:

(i) An entity one of whose main functions is to take deposits from the public;

(ii) An entity one of whose main functions is to provide insurance to the public; or

(iii) A class of entities where use of the ISA for LCE is prohibited for that specific class of entity by a legislative or regulatory authority or relevant local body with standard-setting authority in the jurisdiction.

...

A.2 The classes in paragraph A.1.(a) (b) and (d) are outright prohibitions and cannot be modified.

Legislative or regulatory authorities or relevant local bodies with standard-setting authority can modify each class described in paragraph A.1.(c) but a class cannot be removed.

A.1.(c) sets out some classes of entities that may exhibit public interest characteristics. Entities that have public interest characteristics could embody a level of complexity in fact or appearance and are specifically prohibited from using the ISA for LCE. **Modifications can be made by adding a class of entities to the list of prohibited entities**, permitting specific sub-sets within a class to be able to use this standard or using quantitative thresholds to prohibit use of this standard. Legislative or regulatory authorities or relevant local bodies with standard-setting authority may subsequently remove or amend modifications that they have made.]

45% Yes
55% No

100% No

100% No

13% Yes
87% No

11% Yes
89% No

40% Yes
60% No

Consultants and Service Providers	MIB and CFOs	Regulators	Practitioners	Academics	TOs and Trainees
Question: If "Yes" please indicate the classes of entity to whom application of the standard should be prohibited.					
<ul style="list-style-type: none"> • Necessity to explicitly state entities that cannot be audited using LCE such as Body Corporate. • There is no reference to publicly traded entities in line with IESBA pronouncements • Public Interest Entity • If there is a different tier of company based on the PI score • Entities under financial duress. 	<ul style="list-style-type: none"> • N/A (All respondents answered "No" to the first question) 	<ul style="list-style-type: none"> • N/A (All respondents answered "No" to the first question) 	<ul style="list-style-type: none"> • Compulsory audit - PIE 	<ul style="list-style-type: none"> • High risk audits with international company transactions. 	<ul style="list-style-type: none"> • Public and listed entities, public interest entities, State owned entities. • Entity who has amounts in its AFS that is based on estimates, making use of complex modelling; and entity where there are concerns regarding the ability to continue as a going concern or entity where there is an increased fraud risk
<p>If the ISA for LCE is adopted in South Africa, would you propose the permission of the application of the standard to specific sub-sets within a class, specified in Part A.1.(c) of the standard?</p> <p><i>[Part A.1. and A.2 of the ISA for LCE have reference:</i></p> <p><i>A.1. The ISA for LCE shall not be used if:</i></p> <p><i>...</i></p> <p>(c) The entity falls into one of the following classes:</p> <p><i>(i) An entity one of whose main functions is to take deposits from the public;</i></p> <p><i>(ii) An entity one of whose main functions is to provide insurance to the public; or</i></p> <p><i>(iii) A class of entities where use of the ISA for LCE is prohibited for that specific class of entity by a legislative or regulatory authority or relevant local body with standard-setting authority in the jurisdiction.</i></p> <p><i>...</i></p>					

A.2 The classes in paragraph A.1.(a) (b) and (d) are outright prohibitions and cannot be modified.

Legislative or regulatory authorities or relevant local bodies with standard-setting authority can modify each class described in paragraph A.1.(c) but a class cannot be removed.

A.1.(c) sets out some classes of entities that may exhibit public interest characteristics. Entities that have public interest characteristics could embody a level of complexity in fact or appearance and are specifically prohibited from using the ISA for LCE. Modifications can be made by adding a class of entities to the list of prohibited entities, **permitting specific sub-sets within a class to be able to use this standard** or using quantitative thresholds to prohibit use of this standard. Legislative or regulatory authorities or relevant local bodies with standard-setting authority may subsequently remove or amend modifications that they have made.]

11% Yes 89% No	100% No	100% No	100% No.	100% No.	100% No.
If Yes, please indicate the sub-set within a class of prohibited entity (as per Part A.1. (c)) to whom you believe application of the standard should be permitted.					
Inclusion of specific PI score to determine which standard should be applied.	<ul style="list-style-type: none"> N/A (All respondents answered "No" to the first question)	<ul style="list-style-type: none"> N/A (All respondents answered "No" to the first question)	<ul style="list-style-type: none"> N/A (All respondents answered "No" to the first question)	<ul style="list-style-type: none"> N/A (All respondents answered "No" to the first question)	<ul style="list-style-type: none"> N/A (All respondents answered "No" to the first question)

6. Comparison of the objectives and requirements of selected ISAs to the equivalent paragraphs in the ISA for LCE

6.1. Scope of our mapping exercise

6.1.1. We mapped the objectives and requirements of the following ISAs to the equivalent paragraph(s) in the ISA for LCE, using the mapping performed by the IAASB staff on the first ISA for LCE exposure draft as a basis:

- ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*
- ISA 210, *Agreeing the Terms of Audit Engagements*
- ISA 220, (Revised), *Quality Management for an Audit of Financial Statements*
- ISA 230, *Audit Documentation*
- ISA 260, (Revised) *Communication with Those Charged with Governance*
- ISA 315, (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*
- ISA 330, *The Auditor's Response to Assessed Risks*
- ISA 500, *Audit Evidence*
- ISA 510, *Initial Audit Engagements—Opening Balances*

6.2 Approach followed

6.2.1. We mapped the objectives and requirement paragraphs in the selected ISAs to the equivalent paragraph(s) in the ISA for LCE and compared the paragraphs. We categorised our comparison as follows:

- | | |
|-------------|------------------------------------------------------------------------------------------------------|
| Category A: | The ISA objective/requirement has been included in the ISA for LCE “as is.” |
| Category B: | The objective/requirement has been included in the ISA for LCE with minor wording differences. |
| Category C: | The objective/requirement has been included in the ISA for LCE with significant wording differences. |
| Category D: | The requirement has not been included in the ISA for LCE. |

6.2.2. The distinction between Category B and Category C was inherently subjective. We emphasise that wording differences between equivalent paragraphs in the ISAs and ISA for LCE, whether “minor” or “significant” as per our classification, is not indicative of either the ISAs or the ISA for LCE being superior or inferior: The ISAs and the ISA for LCE are separate auditing frameworks which have both been developed by the IAASB by following rigorous due process. The wording used in the ISA for LCE was intentional, i.e. with the audit of an LCE in mind.

6.3. What we learnt from this comparison

6.3.1. The vast majority of objectives and requirements in the selected ISAs were included in the ISA for LCE, either “as is” or with wording changes required in the context. Regarding wording changes made to the articulation of the paragraphs in the ISAs, the wording changes were more often than not “minor” if compared to “significant” wording changes.

6.3.2. The requirements in the ISAs that were not included in the ISA for LCE were aligned with the scoping of the standard. For example, ISA requirements that apply to listed entities were not included in the ISA for LCE (ISA 260 paragraph 17 was, for example, not included in the ISA for LCE).

6.3.3. Another example: Paragraph A.3 of the ISA for LCE includes the following as a qualitative characteristic of an LCE:

“There are no specific laws or regulations that govern the business activities that add complexity (e.g., prudential requirements).”

ISA 210 paragraph 18 has not been included in the ISA for LCE on the presumption that the scenario addressed in ISA 210.18 (i.e. a scenario where the financial reporting standards established by an authorised or recognised standard setting organisation are supplemented by law or regulation) is indicative of a scenario where laws or regulations that govern the business activities of an entity **added complexity** and was not expected by the IAASB to be a common occurrence on the audit of an LCE. The IAASB thus determined this ISA requirement not to be required in the audit of an LCE.

6.3.4. From an audit work-effort perspective, we did not identify a significant reduction in audit work-effort from the comparison.

6.4. Technical comments on the ISA for LCE: Standard-setting/guidance activity that SAICA foresees would be required if the standard is adopted in South Africa

6.4.1. If the standard is adopted for use in South Africa, we foresee a need for the following standard-setting/guidance activity:

6.4.2. The ISA for LCE does not address a scenario where the LCE’s financial statements were prepared in accordance with a special purpose financial reporting framework. In our view, it would not be an unlikely scenario to have an LCE whose financial statements were prepared in accordance with a special purpose financial reporting framework. To ensure consistency in the application of the standard by registered auditors, the IRBA would need to guide auditors in these scenarios.

6.4.3. It would be useful for registered auditors to have illustrative auditor’s reports for audits performed in terms of the ISA for LCE (for example to include ISA for LCE examples in SAAPS 3).

6.4.4. Guidance would be necessary to explain the implication of the paragraph in Part A.3 previously referred to in this submission (*“There are no specific laws or regulations that govern the business activities that add complexity (e.g., prudential requirements)”*) in the South African context.

6.4.5. The following is stated in the IAASB staff’s FAQs on the ISA for LCE:

“After the ISA for LCE becomes effective on December 15, 2025, there will be an initial period of stability of at least three years. Meaning any possible future revisions to the ISA for LCE would not become effective before December 15, 2028. This initial period of stability will provide stakeholders time to adopt and implement the standard before introducing any possible revisions. The IAASB has indicated that they will consider the best way to maintain the ISA for LCE after the initial period. However, a core

consideration will be that the ISA for LCE must remain up to date and, to the greatest extent possible, consistent with the ISAs.”

- 6.4.6. There is a possibility that the final ISA 570 (Revised 202X) and ISA 240 (Revised) will become effective during the three-year period where the ISA for LCE will not be updated for revisions to the ISAs, resulting in different approaches regarding going concern and fraud (considerations and reporting) in terms of an ISA audit vs an ISA for LCE audit. We are of the view that this would be confusing to users of the auditor's report. We suggest that the IRBA should consider their approach regarding revisions to the ISAs and the impact thereof on the ISA for LCE as applied in South Africa. Although IRBA follows a risk-based approach when it comes to inspections of audit firms and files, the timing lag in terms of the effective date of the standards could result in different findings for similar types of audit engagements depending on whether the ISAs or the ISA for LCE standard has been used for that particular engagement. i.e. a situation where a new requirement in terms of revised ISA is not yet made applicable in the ISA for LCE standard. This is not ideal for consistency purposes as it fragments the profession further.

7. Piloting the standard on live audits

- 7.1. We approached a number of practitioners with a request to pilot the standard on one of their audits. The practitioners indicated that they would need an updated ISA for LCE audit methodology to enable them to do so. The approached practitioners also raised concerns about manpower and time available for such pilots. Furthermore, the practitioners were reluctant to spend additional time over and above the time spent at the roundtables as they were adamant that the ISA for LCE standard would not provide benefits on their audit engagements. The service providers of audit software in South Africa that were approached regarding an ISA for LCE audit methodology indicated that they would need at least 18 months to develop this and were reluctant to incur costs to develop software if it wasn't definite that the standard would be adopted in South Africa. As a result of these factors, pilots did not progress.

8. SAICA's conclusion

- 8.1. In our analysis of the comment letter on the ISA for LCE ED, we were able to determine that the key comments that have been raised for consideration to the IAASB pertaining to the standard are still valid in the South African context and would remain a concern should the standard be adopted in South Africa.
- 8.2. We received an overall negative response from the participants on the roundtable discussions with regards to adoption of the standard in South Africa, supported by the following comments:
- 8.2.1. The possible perception that an LCE standard would result in a lesser quality or scaled down audit product, especially given that application of the standard needs to be explicitly stated in the auditor's report.
- 8.2.2. A possible expectation of reduced work effort being applied than under the full ISAs, despite the level of assurance being the same.
- 8.2.3. Auditors and staff who only perform LCE audits may find their capabilities to apply the full suite of standards not developed or diminished over time, impacting their business and career opportunities.
- 8.3. Standard-setting/guidance activity would be required of the IRBA regarding application of the ISA for LCE in South Africa. Standard-setting /guidance activity would also be required of the IRBA to address future revisions to the ISAs to ensure consistency in key aspects between the ISAs and the ISA for LCE. We believe that the resources that would be required of the profession for such efforts could more fruitfully be applied in educating practitioners on the application of the ISAs.
- 8.4. Based on the various member and stakeholder engagements as well research conducted, SAICA's view is that the adoption of the ISA for LCE in South Africa would not bring benefits to the audit practitioners

and users of the auditor's report. Unless the benefits of applying the ISA for LCE in the South African environment standard can be proven, it is our view that IRBA should not adopt the standard.