

# An analysis of comment letters on a new, stand-alone standard for audits of less complex entities' financial statements

Audit quality  
and ISA for  
LCE

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## Abstract

**Purpose** – The objective of this paper is to extend the debate on audit quality in the less complex entity (LCE) context by analyzing comment letters submitted to the International Auditing and Assurance Standards Board (IAASB). The IAASB has drafted a new, stand-alone standard for audits of LCEs' financial statements.

**Design/methodology/approach** – The Gioia method is utilized to conduct the qualitative analysis. This enables the material to shine and provide a comprehensive picture of the important aspects of the comment letters about the International Standard on Auditing (ISA) for LCEs. A content analysis of the 145 comment letters is conducted to identify the extent of the support for and the arguments against the new, stand-alone draft standard for audits of LCEs' financial statements. In addition, this study considers how the comment letters describe the respondents' views on audit quality in relation to the new standard. Finally, the tone of the comment letters and audit quality arguments is investigated.

**Findings** – The findings provide a useful framework of the most frequently used arguments supporting and opposing the ISA for LCEs. Within the themes identified, a wide variety of issues and concerns are discussed. The results reveal that the arguments in the comment letters are contradictory. For instance, when discussing audit quality, those interest groups that perceived many positive opportunities in the adoption of the ISA for LCEs thought that the audit quality would increase. Conversely, those interest groups that were skeptical about the success of the ISA for LCEs argued that the audit quality could be compromised by the general prejudice that the ISA for LCEs might be perceived as a lower-quality audit with fewer procedures.

**Originality/value** – This paper is, to the best of the authors' knowledge, the first to examine the content of comment letters in the context of a new, stand-alone standard for audits of LCEs. The international audience can utilize the results in the context of the widely discussed issue of reducing LCEs' auditing obligations. This study aims to contribute to the two streams of accounting literature concerning audit quality and political lobbying.

**Keywords** Audit quality, Harmonization, Regulation, ISAs

**Paper type** Research paper

## 1. Introduction

The objective of this article is to extend the debate on audit quality in the less complex entity (LCE) context by analyzing comment letters submitted to the International Auditing and Assurance Standards Board (IAASB). The IAASB has drafted a new, stand-alone International Standard on Auditing (ISA) for audits of LCEs' financial statements (the ISA for LCEs). This is because, over the past few years, there has been worldwide debate

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about the necessity, value, scope and feasibility of the audit requirement for LCEs (Downing and Langli, 2019; Fraser, 2010). Various arguments have been put forward in favor of the application of different standards for audits of LCEs. For instance, if one considers why small and medium enterprises (SMEs) are concerned about the adoption of the clarified ISAs, this appears to be principally because of a perception that the documentation requirements are becoming more extensive and complex (Fraser, 2010).

It should be highlighted that smaller LCEs play a vital role in the world's economy because they account for more than 90% of businesses globally. LCEs generate wealth, investment and jobs in innovation and economic growth (Vanstraelen and Schelleman, 2017). Therefore, in an increasingly complex world with evolving reporting requirements, a need for a set of high-quality requirements tailored to the auditing of LCEs has emerged. In addition, the IAASB has recognized that many audits today are audits of LCEs across a wide range of industries, jurisdictions and entity types. Therefore, the IAASB has suggested that the ISA for LCEs will be of particular interest (Accountancy Europe, 2018). High-quality audits are demanded to increase the credibility of LCEs' financial statements (Minnis and Shroff, 2017). Burns and Fogarty (2010) argued that many factors lead to high-quality audits; the key factor in the process is the development and existence of appropriate auditing standards. Relatedly, Burns and Fogarty (2010) noted that standard setters have an important objective: to provide high-quality standards that support the performance of quality audits. Hence, the new proposed standard has the following features: i) it has been designed specifically for audits of LCEs; ii) it is based on the underlying concepts from the ISAs; iii) it has been developed to be understandable, clear and concise; iv) it aims to reduce the risk of jurisdictional divergence by driving consistency and comparability globally and, finally, v) it seeks to achieve quality audit engagement (IAASB, 2021).

## 2. Background and research questions

The widespread and continually growing international use of the ISAs underscores the significance that the global community attaches to them. Therefore, it is important that the IAASB continues to focus to maintain the quality of the standards for audits of entities of all sizes and levels of complexity (van Nieuw Amerongen *et al.*, 2023). Alternative standards in different jurisdictions for the same type of engagement (i.e. the audit of an LCE) may lead to inconsistencies in quality and cause confusion for users. At present, approximately 130 jurisdictions have adopted or partially adopted the ISAs (IAASB, 2021).

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession. The IAASB has published a draft stand-alone standard for audits of financial statements for LCEs. Comments on it were accepted until January 31, 2022. The IAASB strongly encouraged all interested stakeholders to provide their feedback and comments. Such consultation procedures are known as lobbying processes and are common in the field of accounting and auditing standard setting (Arafat *et al.*, 2020; Monsen, 2022; Rey *et al.*, 2020). Many prior studies have examined the arguments that are used against or in support of a new standard (e.g. Ang *et al.*, 2000; Davis and Hay, 2012; Larson, 2008). In addition, the prior literature has emphasized the importance of conducting a closer analysis of the contents of lobbyists' comment letters because they may reveal that the positions taken by the lobbyists are rarely straightforward (Ang *et al.*, 2000). Moreover, written comment letters are only one aspect of the variety of actions encompassed by lobbying but are the main source available to researchers (Weetman *et al.*, 1996).

Moreover, [Davis and Hay \(2012, p. 303\)](#) stated that “examining the arguments put forward in submission letters has been widely used in accounting and auditing research, as it provides a means of understanding the role of accounting and auditing in society, and the views of those affected.” Relatedly, [Arafat et al. \(2020\)](#) highlighted the overall objective of their study as being to improve the awareness and understanding of the use of comment letters sent to local and international standard setters addressing a common financial reporting issue. Studies on textual characteristics are categorized as investigating the syntactic or thematic structure. Syntactic analysis focuses on the structural organization of the text, while the thematic type is concerned with the information context ([Sydserff and Weetman, 2002](#)). This paper aims to make a contribution by analyzing the thematic structure of the comment letters. Hence, the IAASB emphasized that the new standard is relevant to preparers and users of financial statements, owners, management and those charged with the governance of entities, legislative or regulatory authorities, relevant local bodies with standard-setting authority, professional accountancy organizations, academics, regulators and audit oversight bodies, and auditors and audit firms, among others. The IAASB received 145 comment letters [1] from different interest groups. The comment letters are publicly available, providing a unique opportunity to investigate lobbying in the case of the ISA for LCEs. Therefore, this study aims to examine the following research questions:

- (1) How are interest groups reacting to the new stand-alone standard for audits of LCEs?
- (2) What reasons do interest groups give for their support for or opposition to the new stand-alone standard for audits of LCEs?
- (3) How do the comment letters describe their views regarding the audit quality in relation to the new standard?
- (4) What is the role of tone in lobbying, especially when discussing audit quality?
- (5) What kind of improvements or suggestions did the interest groups mention when discussing audit quality and the new standard?

### 3. Related literature

#### 3.1 Participation in the standard-setting process

It is widely recognized that accounting standard setters have to engage with interest groups in the development of a particular piece of regulation ([Shields et al., 2019](#)). The public participation process helps standard-setting bodies to gain legitimacy ([Durocher et al., 2007](#)), and this is the main reason why standard-setting organizations ask for public comments ([Fogarty, 1992](#)). Prior research has highlighted that interest groups’ lobbying activities play a crucial role in the development and implementation of accounting standards in addition to the auditing rules and regulations in general ([Gros and Worret, 2016](#)). Therefore, lobbying can be considered an essential part of the whole rule-setting and policy-making process ([Giner and Arce, 2012](#); [Gros and Worret, 2016](#); [Reuter and Messner, 2015](#)). Previous studies have identified direct lobbying methods. For instance, [Orens et al. \(2011\)](#) clarified that submitting a comment letter to the standard setter in response to a public request is a formal lobbying method. In other words, direct lobbying means submitting comment letters within a public consultation process, and this is the case investigated in this analysis of the ISA for LCEs. Public consultation processes are well known in the field of auditing, in which they are part of the due process of standard setters, such as the IAASB. In addition, it has been argued that the submission of comment letters is one of the most common methods and the most evident action for participation in the standard-setting process ([Reuter and Messner, 2015](#)).

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Many prior studies have examined lobbying in the case of the adoption of accounting standards (Bamber and McMeeking, 2016; Georgiou, 2010; Larson, 2008; Orens *et al.*, 2011). Further, some studies have explored the impact of lobbying activities on the final regulatory outcome with regard to potential lobbying success (Gros and Worret, 2016; Hansen, 2011; Kwok and Sharp, 2005). For instance, Gros and Worret (2016) assessed the lobbying activities in the consultation process of the European Commission (EC) Green Paper on audit policy in 2010. They found that lobbying was used strategically to reduce information asymmetry. Their results suggested that auditors and preparers exhibited greater participation in the consultation process of the EC Green Paper on audit policy than other interest groups. Gros and Worret (2016, p. 382) concluded that “interest groups that have informational advantages regarding the relevance and possible effects of the proposed regulations and that are potentially affected the most by regulatory changes have higher incentives to engage in lobbying activities.” Therefore, their study explains the informational role of lobbying. However, prior studies have not analyzed the lobbying argumentation in the context of the comment letters on the ISA for LCEs. In addition, prior research about the rhetorical tone of the argumentation in comment letters in standard setting has been scarce. Therefore, this study aims to fill this gap in the auditing and lobbying literature.

### *3.2 Theoretical background and lobbying*

Prior studies have used competing theories in the economics and political science literature to examine lobbyists' attributes that are likely to be associated with lobbying success (e.g. Gipper *et al.*, 2013). One stream of literature has argued that lobbyists' success is a result of the ability to transfer information to regulators (Gros and Worret, 2016; Hansen, 2011; Rey *et al.*, 2020). This theory is generally represented by signaling models that rely on the assumption that regulators are benevolent or should serve the public interest. For instance, Giner and Mora (2021) suggested that public interest should be the key issue in the accounting standard-setting process. In addition, Georgiou (2005) and Georgiou and Roberts (2004) argued that potential lobbyists might decide to lobby if they are aware of the positive impacts of the suggested reform. Prior studies have suggested that it is likely that interest groups have access to information that will improve the regulators' decision (Hansen, 2011; Hoffmann and Zülch, 2014). In this setting, successful lobbying is determined by the ability of the interest groups to provide the standard-setting process with information. In the accounting standard-setting arena, one way to transfer valuable information is through comment letters submitted in response to exposure drafts (EDs). The critical information in comment letters can take the form of either the likely economic effect of changes in accounting standards or the technical issues likely to arise in the application of the proposed standards (Hansen, 2011; Tandy and Wilburn, 1996). Relatedly, Rey *et al.* (2020) hypothesized and found evidence that the success of lobbying activities is positively associated with lobbyists' capability to transfer information to the International Accounting Standards Board (IASB).

Therefore, analyzing the content of comment letters and categorizing their detailed arguments are important and reveal how interest groups attempt to persuade the IAASB. If interest groups are dissatisfied with proposals, instead of outright disagreement, they might use arguments and explanations in their responses to convince the standard setter to reject its proposals (Giner and Arce, 2012) or to improve them. For instance, Shields *et al.* (2019) investigated whether the use of arguments can be captured through negative tone and whether this is a better predictor of lobbying success than outright disagreement. Hence, looking at textual tone, in addition to explicitly stated opinions, in comment letters can enrich the analysis of lobbying efforts. In other words, we investigate the views expressed and the arguments advanced by lobbyists voluntarily in support of their position in the

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comment letters. This goal is achieved by basing our examination also on the actual tone of the comment letters.

### 3.3 *The demand for audit quality in less complex entities*

Why regulate financial reporting and auditing for LCEs in the first place? [Minnis and Shroff \(2017\)](#) discussed the theoretical arguments for regulating the financial reporting and auditing for private firms. They stated that “one of the primary theoretical justifications for regulating financial reporting and disclosure is because of its externalities on other companies” ([Minnis and Shroff, 2017](#), p. 480). In addition, they suggested that prior research has provided evidence of the positive externalities of public disclosure in a variety of settings because, if these are sufficiently positive, the regulation of factors in these externalities has the potential to be welfare-enhancing for the economy as a whole ([Minnis and Shroff, 2017](#)).

Relatedly, policymakers and regulators are tasked with improving the quality of financial reporting worldwide and ensuring “financial stability,” with the latter becoming an increasingly prominent agenda in the wake of several financial crises ([Booakay and Soobaroyen, 2017](#); [Humphrey et al., 2009](#)). It has been argued that accurate, comparable and transparent financial information is fundamental to the successful operation of financial markets ([Humphrey et al., 2009](#)). [Dunn \(2002\)](#) suggested that accounts must be audited in accordance with an internationally recognized set of auditing standards to provide comparability in relation to audit opinions. The prior literature has suggested that the global auditing standards are considered to be as important as the International Financial Reporting Standards in providing an economy with a sound and stable financial system (e.g. [Booakay and Omotoso, 2016](#)). Audits are performed to improve the validity and reliability of information produced in compliance with a set of accounting standards, and auditing standards provide a benchmark for audit quality and articulate the objectives to be achieved in an audit ([Simunic et al., 2017](#)). Confidence in LCE performance benefits society because it has been suggested that LCEs contribute more to the EU economy than large enterprises ([Accountancy Europe, 2018](#)). However, should the auditing of a small or noncomplex entity with, for example, 15 employees follow the same standards as that of a large company with 45,000? Some have argued that the current ISAs have become too detailed and complicated for the needs of small companies and LCEs because regulators, politicians and standard setters are focusing on protecting capital markets ([Fraser, 2010](#)). Hence, there are great challenges and practical difficulties in applying the ISAs in this environment; therefore, the status quo is not an option. One must keep in mind that, to ensure the consistency of audit quality, the design of any standard-setting solution for the auditing of small companies or LCEs should provide the same level of audit comfort and assurance as any other audit. The audit recipient and users of the financial statements should receive the same level of comfort when a new, stand-alone standard for audits of LCEs’ financial statements is employed as when the full ISAs are used. This is due to the fact that it is important to maintain confidence in the financial reporting of LCEs, SMEs and other entities that are less complex because they are a critical source of employment and innovation and are embedded in local communities. Therefore, it is in the public interest to have high-quality audits that instill confidence and trust in this part of the economy. The ISAs have been developed to improve audits and assurance. For instance, it has been suggested that the ISAs are instrumental in advancing audit quality worldwide ([Accountancy Europe, 2018](#)). However, alternative standards in different jurisdictions for the same type of engagement (i.e. an audit of an LCE) may lead to inconsistencies in quality and cause confusion for users. It is therefore in the public interest to establish a high-quality standard that has global relevance ([van Nieuw Amerongen et al., 2022](#)). One of the efforts to improve the audit quality in the auditing of an LCE is the international adoption of the latest risk-based audit standards referring to the ISA for LCEs.

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However, research on the ISA for LCEs has been moderate. [Coram et al. \(2022\)](#) conducted a study examining the ISA for LCEs and provided evidence-based comments on the proposed standard. [Van Nieuw Amerongen et al. \(2023\)](#) conscientiously summarized stakeholder views during roundtables on the 2021 IAASB's ISA for LCEs project, and their results revealed considerable support regarding the need for an international LCE standard. In other words, their first commentary study summarized and analyzed the views that arose during the first roundtable breakout session focused on authority and groups and their study provided recommendations to the IAASB regarding the way forward. Their recommendations were associated with the qualitative characteristics, group audits and guidance needed for transitioning. [Van Nieuw Amerongen et al. \(2022\)](#) continued their work and provided a summary of the views heard during the second roundtable breakout session focused on the design, structure and content of the ED LCE. Their results suggested substantial support for the structure and flow of the ED LCE, the stand-alone format and the content of the new standard. Their results also emphasized the potential for the LCE standard to be applied in practice and to meet the needs of stakeholders.

Our study supports the results of these two studies but also adds new knowledge and insights to the literature. Our study complements these two studies in the following ways. Firstly, [van Nieuw Amerongen et al. \(2022, 2023\)](#) analyzed thoroughly the roundtable discussions among 54 participants, while we analyze a relatively large number of comment letters (145 CLs) from different interest groups. Prior studies have suggested that both submitting a comment letter to the standard setter in response to a public request and participating in roundtable discussions are extremely beneficial in influencing the standard setter ([Orens et al., 2011](#)). Therefore, it is important to compare the results and suggestions from studies analyzing different direct lobbying methods. Our study also utilized Gioia's method to reveal the arguments supporting and opposing the new standard. Hence, our study adds to the existing knowledge because it evaluates the feedback from a comprehensive amount of comment letters on the draft of the ISAs for LCEs. To conclude, our study benefits the standard setter, the IAASB, which can incorporate this feedback into a new version of the standard. Furthermore, we conducted inductive analysis and investigated arguments concerning audit quality. Finally, our study examined the tone of the comment letters on the ISA for LCEs, and this has not previously been undertaken.

#### 4. Research design

The qualitative approach is well suited to studying complex interconnections and relationships ([De Villiers et al., 2019](#)). The interpretive and critical paradigms in accounting are most often associated with qualitative methods, with which researchers try to preserve the complexity of the material being studied ([Chua, 1986](#)). The objective of this study was to analyze the available comment letters carefully to gather as much relevant information about each letter as possible. The focus of the analysis was on how the comment letters described the writers' views on audit quality in relation to the new standard. The Gioia method was utilized to conduct the inductive analysis ([Gioia et al., 2013](#)). This enabled the material to shine and provide a comprehensive picture of the important aspects of the comment letters about the ISA for LCEs.

##### 4.1 Data collection

All the documents categorized as comment letters from the IAASB's web page were collected. In total, 145 comment letters were analyzed. The contents of the comment letters concerning the ISA for LCEs are valuable for learning whether there was agreement or disagreement with the proposal as well as for obtaining precise suggestions and arguments from the



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interest groups. In addition, the content of the comment letters increased the general comprehension of the arguments regarding the possible public or private consequences of the adoption of the ISA for LCEs. Furthermore, the term “audit quality” was specifically used to find the relevant content from the comment letters discussing audit quality. The combinations of keywords employed to search for relevant arguments included “quality,” “quality audits” and “high-quality audits.”

#### 4.2 The Gioia method

An interpretative approach, known as the “Gioia method,” was adopted as there is little theoretical precedent regarding the ISA for LCEs. The principal objective was to gain a holistic understanding of its pros and cons. In addition, the aim was to understand what was highlighted when discussing audit quality. This careful examination ensured that all the important aspects of the data were captured. This approach was followed because it is ideal for examining complex phenomena. The inductive analysis suggested by Gioia *et al.* (2013) has been used recently in many accounting and auditing studies (see, for instance, Daoust and Malsch, 2020; Haapamäki, 2022). More specifically, the Gioia method introduces a highly disciplined coding and analysis process, presenting the output with a three-order hierarchical data structure. The use of the “Gioia method” has become a common way to provide a credible analysis in qualitative accounting research (Hoque *et al.*, 2017).

The first step in our analysis was to sift through the data and carefully read the parts of the comment letters in which the interest groups discussed audit quality. The objective was to develop a comprehensive understanding of how the interest groups described their views on audit quality in relation to the new standard. Hence, the qualitative data were analyzed to convey similar arguments about audit quality with the aim of generating the first-order concepts. The purpose was to start with the data and identify the patterns that emerged. Having established the first-order categories, the next phase of the qualitative analysis involved identifying links among the first-order concepts to group them into second-order themes. This phase of the analysis was equally iterative, moving back and forth between the first-order descriptive concepts and the evolving patterns in the data until conceptual patterns were developed for the second-order themes (Gioia *et al.*, 2013). Once a set of second-order themes had been uncovered, the final phase was to investigate whether it was still possible to distill the emergent second-order themes even further into second-order “aggregate dimensions” (Gioia *et al.*, 2013). The aggregate dimensions represent the overarching themes obtained from the data analysis. Gioia (2020) suggested that a relevant interpretive study should generate a plausible, defensible explanation of a phenomenon of interest. Therefore, in the current study, the aggregate dimensions explain the wider picture behind the discussion related to audit quality and the ISA for LCEs.

#### 4.3 Textual tone

A growing number of accounting researchers are using linguistic analysis to explore the multiple dimensions of textual information (Fisher *et al.*, 2020; Loughran and McDonald, 2016). Accordingly, the textual tone of audit quality discussions is measured using sentiment analysis. Sentiment analysis is performed by comparing the relative frequency of positive, neutral and negative words on a page. For example, a higher net proportion of negative words on a page indicates a more pessimistic general tone. A critical step in sentiment analysis is to choose an appropriate source of negative and positive word lists because the negativity of a word is especially domain-specific. DICTION has been used in many recent accounting studies (i.e. Fisher *et al.*, 2020; Tsileponis *et al.*, 2020), and therefore we decided to utilize it. DICTION 7 is a scientific method for determining the tone of a verbal message using a powerful Windows®- or Mac®-based program that searches a passage for 5 general lexical

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features as well as 35 sub-features. DICTION conducts its searches via a 10,000-word corpus and up to 35 linguistic categories (Patelli and Pedrini, 2015; Sydserff and Weetman, 2002). DICTION uses dictionaries (word lists) to search a text for the following five master variables:

- (1) Certainty – language indicating resoluteness, inflexibility, completeness and a tendency to speak *ex cathedra*
- (2) Activity – language featuring movement, change, the implementation of ideas and the avoidance of inertia
- (3) Optimism – language endorsing a particular person, group, concept or event or highlighting its positive properties
- (4) Realism – language describing tangible, immediate, recognizable matters that affect people’s everyday lives
- (5) Commonality – language highlighting the agreed-upon values of a group and rejecting idiosyncratic modes of engagement

In other words, the certainty master variable measures the use of power in text. The realism master variable measures the practical texture of text and is formed from expressions referring to tangible and practical matters. The activity score is a measure of the dynamism of a text and is composed of statements indicating modification or revision. Optimism measures the emotional resiliency of a text and reflects statements endorsing someone or something or offering positive appraisals. Commonality, the final master variable, reflects language that highlights the agreed-upon values of a group and cooperation (Hart, 2000; Mobus, 2011). In addition, the complexity of the text in the comment letters is examined because it is a simple measure of the average number of characters per word in a given input file. Complexity can also be measured using DICTION textual analysis and borrows Rudolph Flesch’s (1951) notion that convoluted phrasings make a text’s ideas abstract and its implications unclear. Research on textual complexity is motivated by its direct relationship with communicative effectiveness (Fisher *et al.*, 2020). In the case of comment letters and lobbying, communicative effectiveness is the key issue because, if interest groups want to communicate efficiently and transfer their knowledge to regulators and standard setters, the text in their comment letters should not contain inaccessible writing styles, excessive sentence lengths, overuse of technical jargon and excessive wordiness. Instead, a convincing and clear tone should be used to facilitate the communication of incrementally useful information. To conclude, we investigate multiple tonal variables across a range of comment letters.

## 5. Results

The following section contains the findings. First, the results regarding the interest groups’ reaction to the new standard are presented. Second, those in relation to which interest groups gave their support or opposition to the new stand-alone standard for audits of LCEs are discussed. Third, the findings related to the audit quality concerns are evaluated. Finally, the improvements or suggestions that the interest groups mentioned when discussing audit quality and the new standard are examined.

### 5.1 Overview of the interest groups

Based on the function and the legal status of the respondents, it was possible to differentiate the lobbyists into five different groups. The accounting and auditing profession includes Big 4 firms, mid-tier audit firms, recognized supervisory and professional bodies, and individual auditors. The public authorities include national ministries, governmental institutions and



auditor oversight bodies. The users of financial statements include institutional investors, financial analysts, unions and shareholder organizations. The academic interest group comprises researchers and individuals from academia. The interest group “others” consists of respondents who could not be attributed to one of the other interest groups.

An overview of the participating interest groups and geographic regions is presented in Table 1. Panel A of Table 1 shows that most comment letters were submitted by the accounting and auditing profession (113 of the 145 lobbying participants in the sample or 78%). This finding is consistent with the prior literature. The high involvement of the accounting and auditing profession is reasonable because this group might have an informational advantage and be affected the most by future changes in audit regulation; thus, it could be expected to engage actively in the current lobbying process. The adoption of the ISA for LCEs would affect the accounting and auditing profession significantly. Public authorities represent the second-highest participation rate. These are mostly national authorities and national auditor oversight bodies (25 of the 145 lobbying participants in the sample or 17%). A low level of participation in the current case was exhibited by the academics (4 of the 145 lobbying participants or 3%), and this finding is partly consistent with those of prior studies (i.e. Larson and Herz, 2013). It is unfortunate that the auditing academic community appears to be uninvolved because there is a need for academics’ involvement in the standard-setting process (Tandy and Wilburn, 1996). A low level of participation in the current case was also exhibited by the users of financial statements (1 of the 145 lobbying participants), who represent the least involved group. This finding is consistent with the prior literature. For instance, Weetman *et al.* (1996) observed that, during consultation rounds, there is a general absence of comment letters by users of financial statements or their representatives. Panel B of Table 1 presents the descriptive statistics about the geographic regions of the submitted comment letters. Most of the comment letters were from Europe (38.6%). This finding is consistent with prior studies; for instance, Larson and Herz (2013) stated that Europeans provide 54% of all IASB comment letter responses. The second-highest participation rate was from Asia/Oceania (20.8%), and the lowest participation rate was from Africa (8.9%).

### 5.2 Overview of the support and opposition

Panel A of Table 2 provides descriptive statistics about the support for and opposition to the new standard. To summarize, the majority of submissions (81 comment letters or 55.8%) saw

	Total
<i>Panel A</i>	
Accounting and auditing profession	113 (78.0%)
Public authorities	25 (17.0%)
Users	1 (0.60%)
Academia	4 (3.0%)
Others	2 (1.4%)
Total	145 (100%)
<i>Panel B</i>	
Europe	56 (38.6%)
Africa	13 (8.9%)
Asia/Oceania	30 (20.8%)
Americas	23 (15.8%)
Worldwide organizations	23 (15.9%)
Total	145 (100%)

**Table 1.**  
Summary of the  
lobbying participants  
and geographic regions

	Europe	Africa	Asia/ Oceania	Americas	Worldwide	Total
<i>Panel A. Overall view of the design of the ISA for LCEs</i>						
Number of comment letters that saw potential in the new standard	34 (23.4%)	9 (6.2%)	20 (13.8%)	8 (5.5%)	10 (6.9%)	81 (55.8%)
Number of comment letters that were not totally convinced that the ISA for LCE will be successful without modifications	19 (13.2%)	1 (0.8%)	3 (2.0%)	6 (4.1%)	10 (6.9%)	39 (27.0%)
Number of comment letters that did not comment directly on the issue	3 (2.0%)	3 (2.0%)	7 (4.9%)	9 (6.2%)	3 (2.0%)	25 (17.1%)
Total	56 (38.6%)	13 (8.9%)	30 (20.9%)	23 (15.8%)	23 (15.8%)	145 (100%)
<i>Panel B. View of the stand-alone nature of the new standard</i>						
Number of comment letters that agreed with the stand-alone standard	31 (21.3%)	10 (6.9%)	17 (11.7%)	14 (9.7%)	5 (3.4%)	77 (53.1%)
Number of comment letters that agreed with the ISA for LCEs' content but stated that it would be better to complement the current full ISAs or the LCE standard should be included in full ISAs with a separate number	7 (4.9%)	3 (2.0%)	6 (4.1%)	2 (1.2%)	7 (4.9%)	25 (17.1%)
Number of comment letters that disagreed with the stand-alone standard	11 (7.5%)	0 (0.0%)	2 (1.2%)	3 (2.0%)	7 (4.9%)	23 (15.8%)
Number of comment letters that were unclear	7 (4.9%)	0 (0.0%)	5 (3.4%)	4 (2.8%)	4 (2.8%)	20 (13.8%)
Total	56 (38.6%)	13 (8.9%)	30 (20.9%)	23 (15.8%)	23 (15.8%)	145 (100.0%)

**Table 2.**  
Overview of the support and opposition

potential in the new standard and one-third (39 comment letters or 26.9%) were not entirely convinced that the planned reform would be successful without modifications. These results are in line with [van Nieuw Amerongen et al.'s \(2022\)](#) study, which found that 58% of the roundtable participants agreed that the ED ISA for LCEs is adequately structured regarding requirements and 11% of the roundtable participants stated that the ED needs improvements. It can be interpreted that the majority of the comment letters supported the overall design of the new standard but that some important modifications should be carefully considered. However, the analysis revealed that a few respondents (25 comment letters or 17.2%) did not directly remark on the issue. The respondents within this group did not comment directly on whether they supported or opposed the ISA for LCEs. These comment letters presented a solid discussion of the importance of auditing standards and emphasized that political decisions should be made with care. The comment letters also

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discussed whether the ISA for LCEs should be a stand-alone standard; therefore, we examined the views related to the stand-alone nature in detail. This examination also enabled us to compare the results with those of [van Nieuw Amerongen et al.'s \(2022\)](#) study. Panel B of [Table 2](#) presents the views associated with the stand-alone nature of the new standard. For instance, their results revealed that 51% of all the participants in the roundtable discussions agreed that the ED LCEs should be a stand-alone standard. Our results support this finding; our analysis revealed that 77 of 145 comment letters (53%) supported the stand-alone nature.

### *5.3 General comments from the comment letters*

It was clearly emphasized in the comment letters that the current situation is not optimal. According to the submissions, there is a clear need to lighten the audit process when auditing LCEs. It has been suggested that the full ISAs are too heavy for the purposes of LCEs. Hence, the comment letters appreciated the efforts to establish a common international practice. This view is supported by the auditing literature. For instance, [Humphrey \(2008\)](#) emphasized that the current commitment to delivering convergence in international auditing standards and practices is essential. The new standard is welcomed because of its ambition to create a globally consistent set of assurance standards eliminating or reducing the usage of divergent national standards. Furthermore, the new standard is supported because it should be as broadly applicable as possible. However, within the comment letters, the views were polarized, with the new standard being supported if the additional improvements were included in the reform. Interestingly, some of the supporters provided very detailed lists of the changes that should be considered. Moreover, the results indicated that the submissions included different opinions about how the new standard should be implemented. To conclude, [Table 3](#) presents the data structure for the supporting arguments and [Table 4](#) summarizes the data structure for the opposing ones. Finally, [Table 5](#) sums up the framework of arguments related to the ISA for LCEs.

### *5.4 Arguments supporting the new ISA for LCEs*

The comment letters with supporting arguments were gathered with precision. They were read multiple times to search for similarities and differences among the arguments that supported the new standard. This phase consisted of repeatedly returning to the material, which resulted in the identification of several mainly used arguments. Hence, the comment letters highlighted many supporting arguments for the new ISA for LCEs.

*5.4.1 A global solution is needed.* First, it was clear that a global solution would be warmly welcomed. The interest groups stated that the ED could provide a globally consistent approach at a time when a number of jurisdiction-specific LCE standards are emerging, which is not in the public interest. Moreover, the comment letters noted that there is definitely an urgent need for action at the global level to address the significant risk of fragmentation to the international standard-setting ecosystem due to further national and regional initiatives specifically targeted at LCE audits. The need for action was justified by highlighting that LCEs contribute significantly to the global economy and hence that this project is critical to support the public interest. The importance of serving the public interest was mentioned in many comment letters. They argued that the new standard would definitely serve the public interest, including the purpose for which the audit is being performed, and meet the expectations of those with responsibility for preparing financial statements. For instance, [Dellaportas and Davenport \(2008, p. 1093\)](#) stated that, "in accounting, the public interest is generally defined as the collective well-being of people and institutions the profession serves and to protect the economic interests of third parties by facilitating an efficient and effective economic decision making process through the provision of relevant and reliable

First-order concepts	Second-order concepts	Aggregate dimensions
<i>Arguments from the submissions that saw potential in the reform</i>		
<ul style="list-style-type: none"> <li>- It was clearly shown that a global solution would be warmly welcomed</li> <li>- An urgent need for action to address the significant risk of fragmentation to the international standard-setting ecosystem</li> <li>- The new standard would definitely serve the public interest, including the purpose for which the audit is being performed, and meet the expectations of those with responsibility for preparing financial statements</li> <li>- The structure and language used in the draft standard will increase the understandability of the audit process itself and it might therefore in itself contribute to higher audit quality</li> <li>- The new standard is not to be perceived as requiring less work but instead as focusing more on the right work</li> <li>- It is important that the ISA for LCEs will enable less complex and more cost-effective auditing by the entities</li> <li>- It should be very clearly communicated that the whole project is not about reducing work or quality but about having a standard that is tailored to LCEs</li> </ul>	<ul style="list-style-type: none"> <li>Standardization of practices at the global level is urgent</li> <li>Positive consequences are important; for instance, the audit quality could be improved</li> <li>It is essential to have a standard that is suitable for small audits</li> </ul>	<ul style="list-style-type: none"> <li>Appreciation of the efforts to standardize the auditing standards for LCEs</li> </ul>

**Table 3.**  
Data structure

economic data.” Relatedly, [Baker et al. \(2014\)](#) asserted that the key role of the auditing regulation is to protect the public interest. The following quotes support the above statements:

We support a global solution for LCEs to be audited under a simplified and more relevant auditing standard and we therefore welcome this advancement. CL69

The IAASB has taken the right approach in developing a global solution where numerous and individual solutions are emerging throughout jurisdictions. CL59

These smaller firms are critical to the profession and therefore standard setters need to ensure they protect the public interest while strengthening these firms by addressing the challenges they face. CL51

In a context of increased uncertainty, many going concern issues and other difficulties because of the economic crisis, we believe it is in the interest of the general public to make sure the audit of LCEs is done with high-quality audit standards without any impediment. CL85

*5.4.2 Positive consequences are important; for instance, audit quality could be improved.* The comment letters underlined that the proposed standard is a step in the right direction because the structure and language used in the draft standard will increase the understandability of

First-order concepts	Second-order concepts	Aggregate dimensions
<p><i>Arguments from the submissions that were not supportive of the reform</i></p> <ul style="list-style-type: none"> <li>- Transition requirements from the ISA for LCEs to the ISAs may be triggered more often than the IAASB may expect</li> <li>- It will be challenging for an auditor who will have used the ISA for LCEs for a longer period of time to apply the ISAs in their entirety when the situation deems it necessary</li> <li>- Some auditors will predominantly or only work with the ISA for LCEs, and the ability of these auditors to apply the ISAs will be diminished</li> <li>- It is possible for auditors performing an LCE audit to ignore knowledge of the full suite of ISAs completely</li> <li>- The stand-alone nature was not aligned with the goal to set a consistent and global standard in the interest groups' views</li> <li>- Interest groups argued that the ISA for LCEs does not differ enough from the full ISAs</li> <li>- Interest groups were concerned that the ISA for LCEs might be perceived as providing lower assurance with fewer procedures</li> <li>- The value of an LCE audit is questionable</li> <li>- Multiple sets of auditing standards can create complexity</li> <li>- There are inconsistencies in the qualitative characteristics and unclear criteria for LCEs</li> <li>- The new standard leaves too much room for professional judgments and subjectivity</li> <li>- The existence of subsidiary undertakings does not necessarily make a group complex or difficult to audit</li> <li>- The ISA for LCEs will cause confusion among users of financial statements</li> <li>- The expectation gap already exists in the current situation and there is no need to increase it</li> <li>- The ISA for LCEs may decrease confidence in audits because the adoption of the standard will most likely result in a substantive reduction in the audit work performed and documented</li> <li>- There might be a false expectation that the standard will translate into reduced audit work</li> <li>- There may be an incorrect expectation that the audit will take less effort and thus deserve a smaller audit fee</li> <li>- There was a series of disputes concerning why it should be mentioned in the audit report that the ISA for LCEs has been used</li> <li>- There were doubts that the application of the ISA for LCEs will result in greater efficiency gains in the audit process</li> <li>- It was highlighted that the efficiencies achieved from using the ISA for LCEs may be marginal and, therefore, there might be a low adoption rate</li> </ul>	<p>Challenges in transition between the standards</p> <p>Knowledge of how to use both standards is essential</p> <p>The stand-alone nature of the ISA for LCEs was not seen as advantageous</p> <p>There were serious concerns associated with perceived lower assurance</p> <p>Limitations relating to the use of the standard during the audit process</p> <p>Audits of group financial statements should not be excluded</p> <p>The adoption of the ISA for LCEs could increase the expectation gap</p> <p>Unintended consequences should be carefully considered</p>	<p>Professional skills should be maintained</p> <p>High audit quality should be the cornerstone of developing the ISA for LCEs</p> <p>Improvements should be contemplated</p>

**Table 4.**  
Data structure

Supporting arguments	Opposing arguments	Important considerations	Audit quality arguments
<ul style="list-style-type: none"> <li>• A global solution is needed</li> <li>• Positive consequences are important; for instance, audit quality could be improved</li> <li>• Essential to have a standard that is suitable for small audits</li> </ul>	<ul style="list-style-type: none"> <li>• Challenges in the transition between the full ISAs and the new ISA for LCEs</li> <li>• There is a need for full understanding of both standards</li> <li>• The stand-alone nature of the proposed standard was not seen as advantageous</li> <li>• Serious concerns associated with perceived lower assurance</li> <li>• The qualitative characteristics are not defined precisely and/or the criteria for LCEs are not defined clearly</li> <li>• Audits of group financial statements should not be excluded</li> <li>• Adoption of the ISA for LCEs could increase the expectation gap</li> <li>• Negative unintended consequences</li> </ul>	<ul style="list-style-type: none"> <li>• The CUSP project should be finalized</li> <li>• Clarification is needed</li> </ul>	<ul style="list-style-type: none"> <li>• Preconceptions that the ISA for LCEs produces lower quality than the full ISAs</li> <li>• The perception of two different levels of audit quality may cause confusion and uncertainty</li> <li>• Information sharing is needed</li> <li>• Auditors need more guidance</li> </ul>

**Table 5.**  
The framework of arguments related to the ISA for LCEs project

the audit process and it might therefore in itself contribute to achieving a higher audit quality. Therefore, it was suggested that the audit quality would be improved after the adoption of the new standard. This is due to the great need for this standard in the market, and there are realistic expectations that using this new standard for auditing LCEs will not compromise the quality of the audit but instead may increase it. However, the comment letters emphasized that it is crucial that the audits of these entities not only be of high quality but also provide value to clients and all stakeholders. The interest groups stated that the new standard should not be perceived as requiring less effort but instead focus more on the right work. Furthermore, the comment letters clarified that, by reducing useless audit procedures for LCEs, the new draft standard will make audits more practical for the best interest of the SME world – one that creates value, innovation and jobs. By reducing some forms of bureaucratic and disproportionate audit procedures for SMEs, the new standard will simultaneously reinforce audit attractiveness, including for the staff of the audit firms. To summarize, it was viewed as positive that the draft ISA for LCEs is easier to read, understand and apply than the current ISAs. Hence, the technical issues are carefully considered, which implies that the draft standard provides basic and simple criteria for auditors to perform their work. All these supporting arguments are demonstrated in the following quotes:

The proposed ISA for LCEs is very well designed and structured, and the role of the auditor and firm is clearly and appropriately presented. The content has comprehensively covered all areas of auditing for audits of the financial statements of LCEs. CL123



Current International Auditing Standards are not scalable or proportionate for the audits of LCEs as there are a significant number of requirements that relate to a regulatory environment that is focused more on more complex or listed entities. As a result, audit firms spend time on LCE audits documenting why certain requirements are not applicable and considering points that do not affect or add value to the audit. This leads to a checklist mentality that is neither proportionate to the entity or a good driver of audit quality. CL47

The proposed standard will help improve audit quality and assist the profession in narrowing the expectation gap from various stakeholders, particularly regarding the purpose of an audit of financial statements of LCEs. CL113

*5.4.3 It is essential to have a standard that is suitable for small audits.* To conclude, the supporting arguments stated that it is important for the ISA for LCEs to enable entities to carry out less complex and more cost-effective auditing. Therefore, the new standard would become a tool to engage, plan and execute LCE audits at reasonable costs to the management and under simpler technical documentation criteria that mitigate the risks of auditors' professional exposure. Hence, communication with the stakeholders was the key issue in the comment letters, so it should be very clearly communicated that the whole project is not about reducing work or quality but is about having a standard that is tailored to LCEs. The following quotes support these arguments:

LCEs are an essential and very large sector of the global economy. In some jurisdictions, they form the majority of the corporate populations, and in others, they are the vital not-for-profit, community and small business populations. CL73

The need for a standard for LCEs is without question. CL33

### *5.5 Arguments opposing the new ISA for LCEs*

Similarly, arguments opposing the new ISA for LCEs were collected and analyzed carefully. Since the research objective is to determine the most common and frequently used arguments against the adoption, this study had no predispositions regarding the themes that might be revealed. Based on an initial review of each comment letter, notes about the comments, arguments and views were made. The next step searched for similarities and differences among the comment letters, which resulted in the identification of several second-order concepts. These second-order concepts should not be considered isolated from each other; they are overlapping, but each concept stands alone as much as possible. To summarize, the opposing arguments were quite contrasting in comparison with the supporting arguments.

*5.5.1 Qualitative characteristics are not defined precisely and/or the criteria for LCEs are not clearly outlined.* The comment letters underlined the inconsistencies in the qualitative characteristics and the unclear criteria for LCEs. The submissions argued that the new standard leaves too much space for professional judgments and subjectivity, leading to a lack of consistency within the market, which could result in situations in which the same entity under the same circumstances could be audited according to the ISAs or the ISA for LCEs, depending on the auditor's decision. To summarize, the comment letters brought up many difficulties regarding qualitative characteristics and the detection of limitations relating to the use of the standard during the audit process because some qualitative characteristics seem to be confusing. For example, why can companies in the start-up or development stage of the life cycle not be treated as LCEs? In other words, the comment letters stated that what is considered complex was not clear. For instance, it was suggested that scope and application might be problematic in the absence of any specific definition or threshold that helps to define an LCE. In relation to this, an apparently "simple" entity may be more complex than first thought or vice versa; therefore, there is the risk of auditors becoming confused between the

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two requirements. Finally, the comment letters stated that challenges might occur when attempting to implement the proposed standard in the public sector. The following quotes highlight these arguments:

An entity may have both complex and less-complex elements. We believe the existence of these risks would be a significant barrier to LCE audit practitioners in their decision to adopt the ISA for LCE standard. CL34

The applicability rules of the standard (mainly the existence of many qualitative criteria) could be a significant barrier for practical usage or adoption of the standard. CL106

The current language focuses too much on the limitations and prohibitions rather than the type and structure of an entity that would be considered an LCE. CL139

*5.5.2 Audits of group financial statements should not be excluded.* Many of the interest groups disagreed with the exclusion of audits of group financial statements from the proposed scope. They stated that the prohibition on using the ISA for LCEs for group audits will heavily limit their potential use. This was due to the comment letters noting that group audits are not necessarily complex and should be included when a group audit is fairly straightforward; otherwise, the LCE standard will not be applicable to many audits. Hence, it was highlighted that the proposal to exclude groups from the scope of the ISA for LCEs will limit its applicability as it is common for businesses to be structured across a number of separate corporate entities. Relatedly, it was stated that the existence of subsidiary undertakings does not necessarily make a group complex or difficult to audit. The following quotes present these views:

Such a prohibition, along with the lack of clarity regarding the use of ISA for LCE for the audit of a component of a group audit engagement, where that component satisfies the criteria to use ISA for LCE, will have a significant detrimental effect on the adoption of the standard. CL61

Exclusion of group audits in the ISA for LCE results in a very narrow range of eligible entities. CL143

*5.5.3 Adoption of the ISA for LCEs could increase the expectation gap.* The comment letters suggested that the proposed limitation to the use of the ISA for LCEs will cause confusion among users of financial statements and therefore create a new expectation gap. For instance, it was emphasized that any existing confusion in the marketplace between the existing services may be exacerbated by adding a separate standard for audits of LCEs. Moreover, it was asserted that the confusion resulting from the issuing of a standard for audits of LCEs may widen the expectation gap and decrease the confidence in audits because the adoption of the standard will most likely result in a substantive reduction in the audit work performed and documented. Further, the comment letters stated that there is an existing misunderstanding among stakeholders as to the differences between audits and reviews. To introduce a new assurance form (audits using the ISA for LCEs) will only serve to widen the expectation or knowledge gap between users and auditors further. These concerns are justified according to the prior audit literature because audit regulation and standard setting should reduce the expectation gap between auditors and users and not the opposite (Ruhnke and Schmidt, 2014). The quotes below support this discussion:

We are worried that this proposed standard will lead to an additional expectation gap in the market. CL118

Perceptions about the quality and outcome of the work performed by the auditor, which can lead to widening of the expectation gap and the creation of a second level of auditors/audits. CL71

We believe that the IAASB should respond through carefully designed learning resources and application guidance that have a specific focus on managing this potential expectation gap; the

proposed standard does not go far enough to help reduce the burden of the effort required to complete the simplest, most straightforward, and lowest-risk audits. CL72

*5.5.4 Challenges in the transition between the full ISAs and the new ISA for LCEs.* The comment letters opposed the new ISA for LCEs because the interest groups anticipated comprehensive transition problems when moving from one set to the other. For instance, it was emphasized that the transition requirements from the ISA for LCEs to the full ISAs may be triggered more often than the IAASB may expect and that more guidance is required in this area. Relatedly, it was argued that it will be challenging for auditors who have used the ISA for LCEs for a longer period of time to apply the ISAs in their entirety when the situation deems it necessary (either because of new, more complex clients or because an entity can no longer be considered less complex and therefore the ISAs will become applicable). The following quotes support these concerns:

The confusion/complications between the audits of the same entity when the status of LCEs may change to non-LCEs and back to LCEs over years. CL4

Transitioning from the ISA for LCEs to ISAs in the middle of an audit may make it difficult to identify additional procedures that should be performed as a result of such a transition and create significant pressure on auditors. CL30

The auditor is required to determine whether the proposed standard is appropriate for the audit engagement; if it is found that it is not appropriate because of matters of complexity arising during the audit, then a transition to the ISAs is required. It is unclear how an auditor will be able to identify such situations without an understanding of the ISAs if the auditor has focused his/her training on and performed only LCE audits. CL140

*5.5.5 There is a need for a full understanding of both standards.* The comment letters questioned how an auditor of an LCE will understand and apply the ISA for LCEs without a full understanding of the ISAs. This means that there are concerns that, as some auditors will work predominantly or only with the ISA for LCEs, their ability to apply the ISAs will be diminished. In other words, this means that some auditors will not have the competency to conduct audits using the full ISAs. This could create issues regarding the audit quality of the work performed by these auditors when they are required to apply the ISAs. Hence, the comment letters emphasized that auditors should have a full understanding of both standards. Moreover, they stressed that maintaining two “streams” of audits, including file templates, updates and training, might not be worth the cost. The quotes below support these thoughts.

We do not feel it is possible for auditors performing an LCE audit to completely ignore knowledge of the full suite of ISAs. CL46

Auditors of LCEs will become unfamiliar with the ISAs. CL57

Globally, the audit profession faces the challenge of market concentration, specifically for public-interest entity (PIE) audits. Therefore, 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 does not help in addressing the challenges caused by market concentration. Such distinction may also begin to exist at the individual level where certain auditors only get exposure to audits of LCEs and may not have the skills to apply the main ISAs. CL135

*5.5.6 The stand-alone nature of the proposed standard was not seen advantageous.* Many of the comment letters were not supportive of the stand-alone nature of the proposed standard because, in the interest groups’ views, it was not aligned with the goal to set a consistent, accepted and global standard. For instance, the interest groups stated that there is no need for separate standards, only the need to develop the ISAs. Relatedly, the comment letters stated

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that, with the same work effort, the practitioners may develop a perception that there is no real benefit from using the stand-alone standard.

The interest groups also argued that the ISA for LCEs does not differ enough from the full ISAs. Interestingly, some of the comment letters stated that the ISA for LCEs is considered little more than a concise summary of the existing ISAs. They emphasized that there is no clear difference between the ISAs and the ISA for LCEs since the two frameworks are based on the same principles and are designed ultimately to achieve the same level of reasonable assurance. There were concerns that, by incorporating the majority of ISA requirements without any substantive simplification, the standard will not lead to any significant efficiencies in LCE audits, and this would not be the preferred outcome. The interest groups supported the idea that, while the suggested stand-alone LCE standard is more user-friendly for practitioners, it is not in fact a new standard and, while it summarizes the requirements of the ISAs, it does not change them. Instead, it draws out the minimum requirements within the ISAs that would usually apply to an LCE. To conclude, the comment letters questioned whether, if nothing has changed, the effort should be made to add a new standard. The quotes below support these thoughts.

Many of the requirements in the Proposed Standard are exact replicas of the underlying requirements in the ISAs. CL61

Although the draft LCE standard is significantly shorter, this is primarily due to the removal of guidance. In our view, the lack of reduction of requirements is a result of trying to decide which requirements can be justifiably removed rather than deciding what is actually needed for a quality LCE audit. CL119

We believe that these key challenges have not been addressed in developing the ISA for LCEs and, instead, by the removal of the majority of the application guidance, it has been left to auditors of LCEs to develop their own interpretations in terms of how to comply with the requirements. CL141

*5.5.7 The serious concerns associated with perceived lower assurance.* The interest groups were concerned that the ISA for LCEs might be perceived as providing lower assurance with fewer procedures and, hence, these concerns could lead to a situation in which the value of an LCE audit is questionable and unclear. In addition, the analysis of the comment letters revealed that the interest groups had highlighted that multiple sets of auditing standards can create complexity and consistency challenges. Hence, there is a risk that an LCE audit may be perceived as an “audit light” or “easier, less robust audit.” In practice, this could mean that the adoption of the ISA for LCEs may create the perception that two different audit categories exist, with different levels of assurance, therefore fragmenting the audit market. The comment letters clearly brought up the risk of the emergence of a two-tier audit market and two-tier audit profession – one using the ISAs and another the ISA for LCEs – with users seeing the latter as offering inferior quality. The following quotes support these arguments:

The co-existence of two “sets” of auditing standards would raise the question of the respective “value” of an opinion, the one based on the ISA for LCEs compared to an opinion based on the full set of ISAs. CL22

May result in two tiers of auditors, which cannot be good for the development of the profession in the longer term. CL27

There is the perception amongst some stakeholders that an audit performed under the ISA for LCEs will result in a reduction of the audit procedures to be performed and therefore a “cheaper” audit. In addition, there may be an assumption that the audit opinion under the ISA for LCEs provides a lower level of assurance. CL61

*5.5.8 Negative unintended consequences.* The results of the analysis of the comment letters revealed that concerns had been raised about many unintended consequences of the adoption of the ISA for LCEs. First, the comment letters mentioned that there might be a false expectation that the standard would translate into reduced audit work. The quality that needs to be maintained throughout the audit process will be the same as under the ISAs, although there may be incorrect expectations that the audit would require less effort and thus deserve a smaller audit fee. This false expectation could lead to possible tension within the relationship between auditor and client because audit clients might expect to see a reduction in their audit fees. Second, the comment letters argued that the implementation so far has given rise to a series of disputes concerning why it should be mentioned in the audit report that the ISA for LCEs has been used. To clarify, the proposal requires an audit opinion that references the use of the ISA for LCEs. This additional disclosure raises questions with regard to the value of the auditor's opinion when applying the proposed standard. For instance, it was stated that the reference in the report does not appropriately inform stakeholders about the scope of the proposed standard but is instead quite misleading. To exemplify, the reference in the auditor's report to the conducting of an audit under the ISA for LCEs may result in users of the financial statements believing that the assurance provided is lower than that in an audit for the same entity performed under the ISAs, even though this should not be the case. The concern that the interest groups raised was that this misconception could negatively affect the adoption of the standard worldwide. Therefore, it was recommended that the IAASB reconsiders whether referring to the ISA for LCEs is helpful and beneficial for the users of the financial statements.

Third, it was highlighted that the original objective of creating a new standard for LCEs has not been achieved. Some of the comment letters argued that the proposed standard, as it has been drafted, accomplishes the original objective of addressing the challenges faced by auditors in the auditing of LCEs. Further, there were doubts that the application of the ISA for LCEs will result in greater efficiency gains in the audit process. Interestingly, it was even mentioned that the ISA for LCEs actually increases the work and documentation compared with the full standards as there is a requirement to document and justify the LCE decision. Finally, the comment letters brought up the difficulties in translating the standard into different languages. Prior studies have supported this concern because the limits of interlingual translation have been well recognized and scholars have argued that a translation will very rarely both render the original text word for word into another language and convey its meaning unchanged (Kettunen, 2017). To conclude, the interest groups highlighted that the efficiencies achieved from using the ISA for LCEs may be marginal and, therefore, there might be a low adoption rate. The following quotes present these concerns:

There are many areas of concern and obstacles that could not only undermine the proposed standard but also make it useless. Especially the reference in the audit report that "the audit was conducted in accordance with ISA for LCEs" gives a message of a lower level of quality, together with the difficulties and the cost of changing from the ISA for LCEs to ISAs and back and the lack of flexibility to "top up" would make the standard not effective. CL105

The stand-alone status of the ISA for LCEs may trigger fee reduction pressures from audit clients, possibly leading to adverse impacts on client relationships and fee structures. CL109

Would ultimately result in various national standards instead of the desired global standards. CL77

From an international perspective, translation issues are also a concern of XXX because one auditor may interpret a requirement or a term in one way, whereas another auditor may make a different interpretation, resulting in incorrect application by at least one side. CL33

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### 5.6 *The results of the inductive analysis concerning audit quality*

[Burns and Fogarty \(2010\)](#) suggested that one of the key factors in the process of maintaining and developing audit quality is the existence of appropriate standards. Therefore, this study examines how the comment letters described and evaluated the association between the ISA for LCEs and the audit quality in more detail. Representative quotations are provided to exemplify the arguments associated with the audit quality. The quote selection is distributed across the participants to represent the dataset properly. According to [Gioia \(2020\)](#), the reporting of the findings should be a careful and faithful presentation of evidence, so the audit quality section is also dominated by quotes from the comment letters. The final part of the results presents the textual tone of the comment letters and then the tone of the audit quality arguments.

*5.6.1 Preconceptions that the ISA for LCEs produces lower quality than the full ISAs.* The majority of submissions raised concerns about the likelihood that the audit quality will decrease if the ISA for LCEs is adopted. The adoption of the ISA for LCEs was viewed as problematic for a wide range of reasons, especially because the prepared proposal might provide preconceptions that the ISA for LCEs produces a lower-quality audit than the full ISAs. Hence, the comment letters underlined the existence of many issues that should be considered carefully before the ISA for LCEs is adopted or implemented. The following quotes represent respondents' arguments in the comment letters:

We are also concerned that the IAASB needs to make it clear that this standard is still robust and provides a good quality audit but is tailored to LCEs, i.e. this is not about a reduction in audit quality. CL47

Users of financial statements and stakeholders might not understand the difference between the two frameworks, and problems or concerns might be raised regarding audit quality in the case that the ISA for LCEs is used and not the ISAs. The IAASB should address the concerns regarding the perception of the ISA for LCEs as being a "lesser audit" and auditors who perform audits of LCEs might come to be perceived as less professional. CL68

One important unintended consequence is potentially the user's and preparer's perception that auditors will be doing less work, impeding the audit quality. The standard should be promoted in such a way that it is understandable that the quality of audit work is not compromised and that the work to be carried out is not less but more relevant—with the use of the ISA for LCEs, practitioners can focus on risky areas—so they are not performing less work but the right work for the particular entities. CL69

Regarding the perception of audit quality, we consider it is vital that audits conducted in accordance with the new standard will be widely perceived and recognized as producing an audit that is of the same high quality as that of an audit using the full ISAs. This will demand a universal, consistent and robust information campaign from all authoritative sources. CL103

*5.6.2 The perception of two different levels of audit quality may cause confusion and uncertainty.* Hence, concerns were raised that, if the ISA for LCEs is adopted, it could mean two different levels of audit quality. The comment letters highlighted that there may be a risk of creating two different types of audit quality, one for an audit conducted under the ISA for LCEs and the other for an audit performed under the full ISAs. The comment letters were concerned that the perception of two different levels of audit quality may cause confusion and uncertainty. This is due to the fact that, as stated in the comment letters, multiple sets of auditing standards create complexity and consistency challenges and some third parties could perceive differences in audit quality between the two sets. Relatedly, the comment letters especially emphasized the important role of the IAASB in informing stakeholders that the audit quality is not compromised when applying the ISA for LCEs instead of the ISAs. Hence, the IAASB should convince the interest groups that the audit



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quality is not decreased when the ISA for LCEs is applied and used. The following quotes support these arguments.

There is a perception that the standard will give rise to “second-class audits performed by second class auditors.” During implementation, the IAASB together with adopting national oversight authorities and standard setters must rebut this perception, communicate the foundational principles of the standard and generally show that the standard has been developed in the interests of delivering quality audits. However, it may be difficult to mitigate this perception in countries where there is no oversight or where the oversight process is less developed. The post-implementation review should include looking for evidence that the standard has resulted in an impairment of audit quality and identifying what must be done to remediate this. CL134

Accordingly, we highlight that it is critical for the IAASB to clarify and clearly articulate the differences between the two frameworks so that auditors can address any misunderstandings/inappropriate perceptions from other stakeholders as well as to include sufficient and appropriate application guidance to drive the consistency of application and audit quality. CL89

Other stakeholders may perceive the ISA for LCE engagement as a lower-quality audit with fewer procedures and a lower cost. Therefore, clear messaging by the IAASB will be essential to convince stakeholders that the audit quality is not compromised. CL106

*5.6.3 Information sharing is needed to guarantee the audit quality.* The comment letters indicated that the IAASB must share information and inform the stakeholders that the ISA for LCEs will not lead to a situation of diminished audit quality. Hence, the IAASB should plan a practical strategy to achieve this objective. However, changing preconceptions is not an easy task. Furthermore, the comment letters indicated that the importance of high-quality audits of LCEs for societies should not be understated. For instance, some interest groups were concerned that the ISA for LCEs might be perceived as a lower-quality audit with fewer procedures, and this should not be the case because it would lead to significant damage to the value of LCE audits. The following quotes support these thoughts:

Small businesses are critical contributors to the global economy, and most audits in the world are related to small businesses. It is therefore crucial that audits of these entities not only be of high quality but also provide value to clients and all stakeholders. The issue of audit quality in the xxxxxxxx region is even more significant because the thresholds for mandatory audits are not high and audits of LCEs are conducted by both large audit firms and small audit firms. CL114

We believe that auditing standards should seek to ensure audit quality above all else. All audit work needs to add to quality, and we suggest that the IAASB revisits the content of the ISA for LCEs and considers whether some of the requirements of the ISAs could be reduced or eliminated for LCEs without compromising on audit quality. CL120

*5.6.4 Auditors need more guidance to maintain audit quality.* The comment letters also highlighted that auditors need more support and guidance when implementing the proposed standard. Hence, it was suggested that significantly more application guidance should be included in the standard itself. This would provide context and clarify how the requirements are expected to be applied when conducting an LCE audit. It was noticed that application guidance is likely to extend the length of the standard significantly. However, without such guidance, the ISA for LCEs would not be sufficiently robust to drive consistency in its application and to support audit quality across the profession. This was viewed as a very important aspect because, if the proposed new standard does not provide enough guidance to auditors, it might result in deterioration of audit quality. The following quotes support these arguments:

In our view, there are some useful approaches, which can provide valuable guidance. These approaches could include creating and offering e-learning courses on the ISA for LCEs, online audit

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simulation training and developing guidance templates to improve documentation in complex audit areas, like accounting estimates, risk assessment or journal entry testing (preferably in the top five languages spoken worldwide). This can either be done by the IAASB team or the IAASB can encourage others, like private publishers (under the supervision of the IAASB) or the Big 4 audit firms, to develop such materials, which will really help in educating auditors and improving the overall audit quality. CL29

We believe that these key challenges have not been addressed in developing the ISA for LCEs and, instead, by the removal of the majority of the application guidance, the auditors of LCEs will be required to develop their own interpretations in terms of how to comply with the requirements, which could lead to inconsistency in application and may have a detrimental effect on audit quality. CL89

### *5.7 Important considerations that should be acknowledged*

While reading and analyzing the comment letters, the authors found that the interest groups suggested many important aspects that should be carefully considered when developing the ISA for LCEs project. This section presents these considerations.

*5.7.1 The Complexity, Understandability, Scalability and Proportionality (CUSP) project should be finalized.* The comment letters recommended that the IAASB should put more effort into the Complexity, Understandability, Scalability and Proportionality (CUSP) project and improve the scalability of the ISAs by revising them based on a building block (think simple first) approach. It was suggested that the proposed standard should be updated to reflect any changes made in a more advanced draft or the final CUSP Drafting Principles and Guidelines. Hence, the IAASB was encouraged to continue with the CUSP project. Interestingly, it was even questioned whether the ISA for LCEs is intended to be an interim measure until the CUSP project is concluded. The following quote supports the above discussion:

We did not support the development of a separate standard for the auditing of a less complex entity, preferring that a solution be facilitated through amendments to the ISAs and other related actions. We are of the view that the reasons for this preference remain valid and that other related actions undertaken by the IAASB, such as the Complexity, Understandability, Scalability and Proportionality (CUSP) project along with the digitalization of the IAASB's Handbook, are better steps along the road of creating ISAs that are capable of being applied to a broad range of entities. CL61

*5.7.2 Clarification is needed.* Moreover, the interest groups demanded very clear thresholds for what specifically qualifies an entity to be considered a less complex one. Hence, the project must ensure that an LCE is easily identifiable. Although the interest groups recognized that defining an LCE is a complex task, the authority of the standard should start from such a definition. The comment letters also underlined that the standard has not explored all the possibilities for simplifying the audit requirements, especially regarding the documentation and audit procedures related to an entity's internal control system. The lack of modification is particularly apparent in Part 6 of the proposed standard in relation to understanding the entity and its environment and, in particular, the auditor's responsibilities in terms of apprehending internal control and control activities. The following quote supports this discussion:

We would recommend setting quantitative criteria for the definition of the scope. Quantitative criteria are comparable and easy to determine for every professional. There could be set a range of quantitative thresholds on the global level, which could be refined by the jurisdictions on the local level. Complementary qualitative criteria could be defined in cases where there are special circumstances (e.g. a complex IT environment, complex business model, situation of capital loss or over-indebtedness). CL80

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### 5.8 Results of the textual tone analysis

This section presents the findings of the textual tone analysis of the comment letters. We employed DICTION – widely used content analysis software – to measure the linguistic attributes of the comment letters. The tone analysis was motivated by the need to reflect the increasing importance of communicating the arguments of the comment letters convincingly. Readability and tone can influence the judgments and decision-making of comment letter users. A comment letter can have an opportunistic attitude toward the new ISA for LCEs and adopt restrained, speculative or conditional commitment to it. However, a comment letter should communicate “concisely” what an interest group thinks about the ISA for LCEs. Therefore, to convey the opinion and perspective, the language should not be too complex or difficult. Hence, it can also be suggested that a lack of clarity in the comment letters may lead to difficulties in understanding their message. In addition, it can be posited that interest groups may behave strategically and use more optimistic and less pessimistic language to achieve their objectives. Therefore, this study mainly concentrates on complexity and optimism scores. Prior studies have suggested that complexity captures the ease with which a reader can process and comprehend written text, and this dimension of complexity focuses on the readability of disclosure (Burke and Gunny, 2022). If the comment letters are genuinely being prepared in an attempt to improve the clarity of communication with standard-setting bodies and regulators and to provide them accurately with related and necessary information, then they become one of the strategic tools for transferring knowledge and communicating information. Readability is measured using the complexity score. It should be noted that a higher complexity score indicates that the disclosure is less readable. Tables 6 and 7 present the descriptive statistics associated with the DICTION scores. Descriptive statistics for all interest groups, for accounting and auditing profession, and for public authorities are reported [2]. As can be seen from Tables 6 and 7, the complexity score is slightly higher for audit quality arguments than the scores in all the comment letters. This finding indicates that, when discussing audit quality, the interest groups might use words that are more complicated and lack clarity. The highest score for complexity for audit quality arguments is from public authorities. Public authorities might not be as familiar with terms and definitions related to audit quality as accounting and auditing profession and therefore, they might use language that is more complex. High complexity might be a concern because there are fears that style-related factors, such as excessive wordiness and technical jargon, are contributing to an overall increase in the complexity and a reduction in the relevance of comment letters. However, reductions in textual complexity could result from employing a more realistic tone in the comment letters.

While, the optimism score suggests that audit quality arguments employ more optimistic language when contrasted with all the comment letters. Interestingly, the highest score for optimism for audit quality arguments is from accounting and auditing profession. This finding indicates that accounting and auditing profession uses optimistic language when discussing about audit quality. However, presenting an overly optimistic picture of the success of the ISA for LCEs may be a concern. To conclude, more readable and less optimistic disclosures are considered “better” in the comment letters (Bozanic *et al.*, 2017).

When observing the other scores, the results reveal that the activity and certainty scores are higher for all the comment letters than for the audit quality arguments. As discussed earlier, the activity master variable analyzes text featuring movement, change, the implementation of ideas and the avoidance of inertia. Hence, a high activity score in all the comment letters underlines the movement and changes for executing the new standard. The highest activity score of all comment letters is from public authorities. Activity score increases with the frequent use of terms related to forceful actions and this finding might indicate that public authorities see the potential in the new standard. However, a high activity score might suggest overconfidence in the ability to implement change. This finding might

Variable	Max.	Min.	Mean	Median	Std. Dev.
<i>DICTION scores for audit quality arguments of all interest groups</i>					
Complexity	6.01	4.65	5.16	5.16	0.26
Activity	62.87	19.02	50.10	50.98	6.64
Optimism	63.20	42.81	52.63	52.73	4.09
Certainty	57.87	32.33	48.47	48.09	4.19
Realism	58.70	43.49	48.91	48.14	3.09
Commonality	59.89	45.60	51.91	51.84	2.60
<i>DICTION scores for audit quality arguments of accounting and auditing profession</i>					
Complexity	5.78	4.65	5.13	5.10	0.25
Activity	62.87	19.02	50.21	50.84	6.90
Optimism	61.46	42.81	52.77	52.77	3.84
Certainty	57.87	32.33	48.58	48.09	4.66
Realism	58.70	44.58	48.89	48.75	2.85
Commonality	59.89	45.6	52.23	51.92	2.88
<i>DICTION scores for audit quality arguments of public authorities</i>					
Complexity	6.01	4.90	5.24	5.25	0.30
Activity	56.27	34.94	50.05	51.37	5.49
Optimism	56.29	46.46	51.66	52.43	3.11
Certainty	52.41	44.53	47.88	47.97	2.54
Realism	53.38	43.49	48.37	48.14	2.90
Commonality	53.58	48.27	50.93	51.04	1.56

**Table 6.**  
Descriptive statistics of  
the DICTION scores for  
audit quality  
arguments

Variable	Max.	Min.	Mean	Median	Std. Dev.
<i>DICTION scores of comment letters from all interest groups</i>					
Complexity	5.92	4.40	5.08	5.07	0.22
Activity	56.75	21.35	50.5	50.78	3.88
Optimism	55.01	40.51	49.7	49.66	1.76
Certainty	64.9	38.63	49.6	49.99	3.87
Realism	47.76	31.08	42.6	43.34	2.64
Commonality	66.68	30.62	50.7	50.69	4.06
<i>DICTION scores of comment letters from accounting and auditing profession</i>					
Complexity	5.68	4.64	5.10	5.07	0.20
Activity	56.75	21.35	50.39	50.76	4.30
Optimism	55.01	40.51	49.66	49.63	1.88
Certainty	64.9	38.63	49.51	50.09	4.03
Realism	47.76	31.08	42.53	43.35	2.82
Commonality	66.68	30.62	50.37	50.52	4.26
<i>DICTION scores of comment letters from public authorities</i>					
Complexity	5.31	4.44	5.06	5.13	0.20
Activity	54.09	46.68	50.91	50.78	1.75
Optimism	51.13	48.33	49.60	49.65	1.73
Certainty	54.88	43.42	49.87	50.18	3.02
Realism	44.87	40.08	43.04	43.40	1.51
Commonality	55.35	47.65	52.06	52.22	2.18

**Table 7.**  
Descriptive statistics of  
the DICTION scores

indicate that the implementation of the new standard is not seen as challenging as it might be in practice.

In addition, a high certainty score indicates the resoluteness and completeness of the interest group's motivation for and interest in developing the new standard. The certainty score is high when the same words are used several times, perhaps to highlight a point or to create an image that is difficult to forget or contradict (Yuthas *et al.*, 2002). To conclude, Yuthas *et al.* (2002) highlighted that truthful arguments come from certainty expression. The highest score for certainty is from public authorities. Public authorities might have some preconceptions regarding the public consequences of the adoption of the new standard, and therefore want to emphasize certainty in their argumentation and take part in the regulatory process. In contrast, the realism scores are higher for audit quality arguments than for all the comment letters. The high levels of realism in the comment letters can suggest fertile questions about the communicative goals of the interest groups and rhetorical strategies. For example, interest groups with audit quality arguments that have high levels of realism could be attempting to communicate directly with widely shared preconceptions that the ISA for LCEs produces lower quality than the full ISAs. In addition, comment letters with a high realism score may move away from discussions of specialized technical issues and processes toward a more realistic discourse. For instance, accounting and auditing profession has a high realism score. Hence, the accounting and auditing profession concentrates on realism in the text with a matter-of-fact type of style. A high realism score suggests that the rhetoric is discussing matters that are familiar to the reader. Using language in this manner allows the reader to recognize and relate to the topics under discussion. In contrast, comment letters exhibiting low levels of realism could be trying to educate the regulators about some relatively arcane topic related to audit quality. Regarding the emphasis on commonality, Lohmann (1992) emphasized the virtue of commonality in producing desirable or preferred outcomes that are associated with shared purposes and that engender a sense of mutuality and fairness (or justice). High commonality scores could reflect the engagement and the growing effort to make the audit quality arguments more relevant to the broader sections of the society. The highest commonality score for audit quality arguments is stemming from accounting and auditing profession. This finding could suggest that accounting and auditing profession is aiming to highlight the public interest issues related to ISA for LCE in their argumentation.

#### *5.9 Discussing the role and importance of the comment letters in the standard-setting process for the ISA for LCEs*

Yen *et al.* (2007) encouraged researchers to examine and discuss the role of comment letters in shaping the standard-setting process and the final standard. Inviting relevant interest groups to write comment letters is an important way to enable voices to be heard on accounting standards that can have a large impact (Hansen, 2011). It has been suggested that the ISA for LCEs can have a significant impact because the contribution of small- and medium-sized entities to local, regional, national and global economies, and society more broadly, cannot be underestimated (Coram *et al.*, 2022). Larson and Herz (2013) suggested that asking for comment letters from interest groups promotes excellence, neutrality, the identification of unintended consequences and, ultimately, broad acceptance of the legitimacy of the standard that is suggested. Hansen (2011) argued that successful lobbying outcomes are associated with higher quality of information in comment letters. He also suggested that the credibility of such information is critical to its value. In other words, it can be suggested that comment letters' writers believe that their suggestions and comments matter and that the arguments presented in their comment letters have been considered carefully. Hence, the comment letters can have a significant role in shaping the final standard. For instance, in the current case,

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group audits were not included in the scope of the original ED of the ISA for LCEs. Given the stakeholder feedback and suggestions in the comment letters, the IAASB reconsidered its decision to exclude group audits and developed proposals that address the audits of less complex groups. Currently, this proposed section, Part 10, Audits of Group Financial Statements, is intended to form part of the proposed ISA for LCEs, and this section is open for comments and suggestions for improvements until May 2, 2023. It will be very interesting to take a closer look at the comment letters concerning this change, and it is important to investigate the views and arguments associated with this proposed section, Part 10.

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## 6. Conclusions

An increasingly demanding regulatory environment has resulted in very detailed ISAs to tackle listed companies and public interest entity regulatory issues (Accountancy Europe, 2018). The full ISAs have become overengineered for the needs of small companies and LCEs. Hence, the IAASB has perceived a strong global need for a separate focused standard for audits of LCEs' financial statements. It has been suggested that the ISA for LCEs is particularly necessary in developing jurisdictions to promote their economic development as well as the development and sustainability of the profession throughout the globe (IAASB, 2022). This study contributes to the scarce research about the ISA for LCEs. The objective of this study was to complement the previous studies examining the ISA for LCEs (van Nieuw Amerongen *et al.*, 2022, 2023) and to provide new knowledge. The aim was to examine the views that supported and opposed the new, stand-alone draft standard for audits of LCEs' financial statements. In addition, this study investigated how the comment letters described the writers' impression of audit quality in relation to the new standard. To summarize, the Gioia method was utilized to answer the research questions, with the ultimate aim of developing a framework that illustrates the dynamic interrelationships among the emergent concepts concerning the arguments stemming from the data. By examining an important element of comment letter disclosure in relation to the ISA for LCEs, this paper contributes to the accounting literature on political lobbying and audit quality.

The findings provide a useful framework of the most frequently used arguments supporting and opposing the ISA for LCEs. Within the themes identified, a wide variety of issues and concerns were discussed. The results reveal that the arguments from the comment letters were contradictory. For instance, when discussing the audit quality, those interest groups that perceived many positive opportunities in the adoption of the ISA for LCEs thought that the audit quality would increase. This rise would be due to the reduction of useless audit procedures for LCEs, with the ISA for LCEs making audits more practical for the best interest of the SME environment – a world that is creating well-being. Conversely, those interest groups that were skeptical about the success of the ISA for LCEs argued that the audit quality could be compromised by the general prejudice that the ISA for LCEs might be perceived as a lower-quality audit with fewer procedures. Hence, concerns were raised that, if the ISA for LCEs is adopted, it could mean two different levels of audit quality, audits conducted under the ISA for LCEs and ones performed under the full ISAs.

Moreover, the results highlighted the comment letters' argument that the proposed limitation to the use of the ISA for LCEs will cause confusion among users of financial statements and therefore create a new expectation gap. For instance, it was emphasized that any existing confusion in the marketplace between the existing services may be exacerbated by introducing a separate standard for audits of LCEs. Our results and van Nieuw Amerongen *et al.*'s (2023) findings support the content of the stand-alone standard. However, the IAASB should consider the possible consequences to avoid the negative outcomes, debating for instance, how to avoid the two-tier auditing system and concerns about decreased audit quality. Therefore, the results of this study support the recommendation for



the IAASB to consider and evaluate the concerns that the interest groups noted in the comment letters.

To conclude, this paper contributes to the literature by providing a framework of arguments related to the ISA for LCEs. Although this paper has essential implications for different parties, it also suffers from limitations. This study relies on a qualitative analysis of the comment letters related to the ISA for LCEs. As such, it has similar limitations to other qualitative studies in auditing. For instance, qualitative research studies have the drawback of being more subjective than quantitative studies. The choice of arguments and quotes in terms of which raw data are included in and which are omitted from the study is somewhat subjective. Therefore, the Gioia method was utilized in this study to tackle these concerns.

Future studies could investigate how the pilots for the new standard were conducted and whether they were successful. Furthermore, a very fruitful research idea could relate to how the implementation and adoption of the ISA for LCEs is carried out in practice. Finally, it would be extremely interesting to consider how the ISA for LCEs will be conveyed and translated into different languages. We acknowledge that these research ideas refer to a situation in which the ISA for LCEs would actually be used in practice. Therefore, a suggestion that is more readily available would be to investigate the differences and similarities between the ISA for LCEs and the national LCE auditing standards that already have been implemented in different jurisdictions. The interplay between national and international standards is relevant to investigate.

## Notes

1. The comment letters are available at: <https://www.iaasb.org/publications/exposure-draft-proposed-international-standard-auditing-financial-statements-less-complex-entities>
2. Comment letters from accounting and auditing profession and public authorities cover 95% of our sample. Therefore, the descriptive statistics from the two largest interest groups are reported.

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