

Meeting: IAASB Consultative Advisory Group (CAG)
Meeting Location: New York, United States of America
Meeting Date: March 7–8, 2023

Agenda Item G

Audits of Less Complex Entities (LCE) – Cover and Report Back

Objectives of Agenda Item

1. The objectives of this agenda item are to:
 - (a) Report back on the September 2022 meeting; and
 - (b) Obtain Representatives views on selected topics of the proposed standard for LCEs.

Project Status

2. The [Exposure Draft of the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities](#) (ED-ISA for LCE) was published in July 2022, and the public consultation ended January 31, 2022. Since the public consultation, the IAASB has been considering feedback from respondents in progressing the finalization of this standard. The IAASB has discussed this project in its June, September, and December meetings in 2022. Among the key matters discussed were:
 - (a) Group audits: In the ED-ISA for LCE, group audits were excluded from the scope. Based on feedback, the IAASB explored including requirements for less complex group audits in a new part, Part 10, Audits of Group Financial Statements. The IAASB approved the [Exposure Draft for Part 10](#) in December 2022, which was published in January 2023 with a 90-day comment period (comments due on May 2, 2023).
 - (b) Part A, Authority of the proposed standard: Respondents to the ED-ISA for LCE expressed concerns that the proposed Authority involved too much judgment and may, therefore, lead to inconsistent or inappropriate use of the standard. To clarify the scope, the IAASB agreed to enhance the description of the qualitative characteristics and include an expectation for jurisdictions to determine quantitative thresholds.
 - (c) The approach to proportionate requirements for LCEs: Respondents to the ED-ISA for LCE encouraged the IAASB to further consider how the requirements reflect the principles of scalability and proportionality appropriate to the typical nature and circumstances of LCEs. In response, the IAASB has discussed revisions to Part 6, Risk Identification and Assessment.
3. The **Appendix** to this paper provides a history of previous discussions with the IAASB CAG and IAASB on this topic, including links to the relevant IAASB CAG documentation.

Way Forward

4. The next discussion will be at the March 2023 IAASB meeting. The IAASB will discuss proposed changes to Parts where more significant revisions may be needed (including Part 2,¹ Part 3² and Part 7³ as it relates to accounting estimates) as well as other parts (e.g., Part 3⁴ and Part 4).⁵
5. The LCE Task Force (the Task Force) intends to use the direction provided during the March 2023 IAASB CAG and IAASB meetings to further enhance the drafting of these Parts. In addition, the Task Force will further analyze respondents' comments to continue revisions to the remaining parts of the standard. The IAASB intends to discuss the revised draft of the full proposed standard (excluding Part 10, Group Audits) in June 2023, and is anticipating final approval of the standard in December 2023.

IAASB CAG Discussion in March 2023

6. For purposes of the IAASB CAG discussion, the Task Force Chair will walk the Representatives through a presentation (**Agenda Item G.1**), that summarizes some of the key revisions the Task Force has proposed since ED-ISA for LCE and highlights key areas identified for Representatives input being:
 - (a) Part 2, *Audit Evidence and Documentation*; (**Agenda Item G.2, section I**)
 - (b) Part 3, *Engagement Quality Management*; (**Agenda Item G.2, section II**)
 - (c) Part 4, *Acceptance or Continuance of an Audit Engagement and Initial Audit Engagements*; (**Agenda Item G.2, section III**)
 - (d) Part 5, *Planning*; (**Agenda Item G.2, section IV**)
 - (e) Part 6, *Risk Identification and Assessment*; (**Agenda Item G.2, section V**) and
 - (f) Requirements relating to Accounting Estimates in Part 7, *Responding to Assessed Risks of Material Misstatement*. (**Agenda Item G.2, section VI**).

Matters for IAASB CAG Consideration

The Representatives are asked for their views on:

1. The proposed revisions to Parts 2–5.
2. The proposed revisions to Part 6, *Risk Identification and Assessment*.
3. The proposed revisions to requirements for accounting estimates included in Part 7, *Responding to Assessed Risks of Material Misstatement*.
4. Any other matters that Representatives may wish to raise on the project.

¹ Part 2, *Audit Evidence and Documentation*

² Part 3, *Engagement Quality Management*

³ Part 7, *Responding to Assessed Risks of Material Misstatement*

⁴ Part 4, *Acceptance or Continuance of an Audit Engagement and Initial Audit Engagements*

⁵ Part 5, *Planning*

Report Back

7. Extracts from the draft minutes of the September 2022 IAASB CAG meeting, as well as an indication of how the Task Force or IAASB has responded to the Representatives' comments, are included in the table below.

Representatives' Comments	Task Force / IAASB Response
GENERAL COMMENTS	
Mr. Ishiwata questioned whether the IAASB should continue with this project given the limited number of resources and because of other projects that may be of a higher priority. Mr. Hansen agreed. Mr. Ishiwata suggested that the work performed to date could be released as guidance.	Point not accepted. Mr. Hagen described the support for the project from a wide range of jurisdictions, including emerging markets. Based on support for the project from a wide range of stakeholders and jurisdictions, including emerging markets, the IAASB has decided to continue with the project.
Mr. Thompson supported the ISA for LCE project. He noted that in addition to the strong support for the proposed standard from stakeholders in Europe, there was significant support expressed during the May 2022 LCE Paris Conference from participants representing donor agencies including the World Bank. He noted such participants supported the project as it would greatly improve the quality of financial reporting in emerging and transitional markets.	Support noted.
Mr. Sobel commended the work performed on the project and noted no specific concerns on its direction.	Support noted.
THE AUTHORITY OF THE STANDARD	
Mr. Thompson, Mses. Manabat and Blomme, supported the proposed revisions to the Authority of the proposed standard. Mr. Thompson particularly supported the incorporation of quantitative thresholds and the removal of the prohibition for audits of group financial statements (group audits). Ms. Blomme particularly supported the removal of the limitation for group audits, noting this change was significant due to the	Support noted.

Representatives' Comments	Task Force / IAASB Response
common occurrence of less-complex groups in Europe.	
Ms. McGeachy and Mr. Norberg supported the proposal to remove the prohibition for group audits and to update qualitative characteristics to describe what is "less-complex" rather than "more-complex". Dr. Norberg also expressed support for the inclusion of quantitative thresholds, noting they may be needed in order to make the standard operational.	Support noted.
Dr. Cela agreed with the proposal to remove the limitation for group audits noting less-complex groups are relevant to the small- and medium-sized practices (SMP) market.	Support noted.
Mr. Yoshii did not support the increase of the scope of the standard to group audits, and to certain financial services entities not otherwise excluded through proposed prohibitions or qualitative characteristics.	Point not accepted. Mr. Hagen acknowledged the range of views, particularly with regard if group audits should be included in the scope of the proposed standard. He noted that groups may be structured as a group due to business or regulatory reasons only and might otherwise be less-complex. Mr. Hagen reminded representatives that the proposed standard is intended to be an optional alternative to using the ISAs and a jurisdiction will have the choice if they wish to adopt it and have the ability to set their own limitations for use (which might include the prohibition of group audits).
Mr. Thompson provided some minor comments on the drafting and noted some concern with the inclusion of quantitative indicators, in particular the number of members involved in financial reporting roles.	Point noted. The Task Force will consider the specific drafting comments when making further revisions to the Authority.
Ms. Manabat noted that further limitations or additional clarity through essential explanatory material may be needed.	Point noted. The Task Force will consider this when finalizing further revisions to the Authority.

Representatives' Comments	Task Force / IAASB Response
AUDITS OF GROUP FINANCIAL STATEMENTS	
<p>Mses. Blomme and Mubarak, and Messrs. Yurdakul and Sarmiento Pavas were of the view that requirements for component auditors should be included in the scope of the proposed standard. Ms. Blomme noted that groups may often be geographically dispersed and so the use of component auditors may be common.</p> <p>Mr. Yurdakul and Ms. Mubarak noted that, in order to be consistent with ISA 600 (Revised),⁶ requirements for component auditors should be included in the proposed standard. Mr. Sarmiento Pavas noted requirements for component auditors should be included as it is common for them to be used in audits in his jurisdiction.</p>	<p>Point noted.</p> <p>Mr. Hagen acknowledged representatives' views on the inclusion of component auditors in the proposed standard, noting that there were some mixed views in the LCE Task Force on this matter, and that direction would be sought from IAASB Board Members in the upcoming meeting.</p> <p>In its December 2022 meeting, the IAASB noted that, generally, component auditors are more often used in more complex groups. Therefore, the IAASB was of the view that prohibiting the use of component auditors was consistent with the nature and circumstances of a typical LCE. However, the IAASB also acknowledged that the use of component auditors may sometimes be due to a practical consideration rather than due to the complexity of the group itself (e.g., attending a physical inventory count)</p> <p>On balance, the IAASB was of the view that the use of component auditors should be excluded from the scope of the proposed ISA for LCE, except when the component auditor's involvement is limited to circumstances in which a physical presence is needed for a specific audit procedure for the group audit (e.g., attending a physical inventory count or inspecting physical assets)</p>
<p>Mr. Yurdakul noted that the sentence structure and language in the proposed Part 10 could be further simplified.</p>	<p>Point noted.</p> <p>The Task Force considered this feedback when proposing further revisions to Part 10 prior to finalization for public exposure.</p>

Representatives' Comments	Task Force / IAASB Response
OTHER COMMENTS	
<p>Ms. Blomme suggested to simplify the requirements relating to risk identification and assessment and documentation in the proposed standard.</p>	<p>Point accepted.</p> <p>The Task Force note that this view is in line with views expressed by respondents to ED-ISA for LCE and are considering this feedback when proposing further revisions to Part 6.</p> <p>In response to respondents' comments for proportionate requirements, the Board agreed with a more "LCE specific" approach for obtaining an understanding of the entity's system of internal control. Several key changes were made which are reflected in Agenda Item G.3.</p>

Material Presented – IAASB CAG Papers

Agenda Item G.1: Presentation

Material Presented – IAASB CAG Reference Papers

Agenda Item G.2: IAASB Less Complex Entities Issues Paper (March 2023) (For Reference)

Agenda Item G.3: Proposed Revisions to the ISA for LCE – Targeted Areas (For Reference)

Project Details and History

Project: Audits of Less Complex Entities

Link to IAASB Project Page: [Audits of Less Complex Entities Project Page](#)

Link to IAASB Focus Area Page: [ISA for LCE Focus Area Page](#)

Task Force Members

- Kai Morten Hagen, IAASB Member and Task Force Chair
- Julie Corden, IAASB Member
- Chun Wee Chiew, IAASB Member
- Sachiko Kai, IAASB Member
- Vivienne Bauer, IAASB Technical Advisor

Summary

	IAASB CAG Meeting	IAASB Meeting
Information Gathering	March 2017 September 2017 September 2018 March 2019 March 2020 September 2020	March 2017 March 2018 (Executive session) September 2018 March 2019 December 2019 April 2020 June 2020
Project Proposal	December 2020	December 2020
Development of Exposure Draft of ISA for LCE	March 2021 September 2021	March 2021 May 2021 June 2021
Development of final ISA for LCE	September 2022	June 2022 September 2022 December 2022

IAASB CAG Discussions: Detailed References

Information Gathering	<p><u>March 2017</u> See IAASB CAG meeting material (Agenda Item G).</p> <p><u>September 2017</u> See IAASB CAG meeting material (Agenda Item C).</p> <p><u>September 2018</u> See IAASB CAG meeting material (Agenda Item I).</p> <p><u>March 2019</u> See IAASB CAG meeting material (Agenda Item E).</p> <p><u>March 2020</u> See IAASB CAG meeting material and CAG (Agenda Item N).</p> <p><u>September 2020</u> See IAASB CAG meeting material (Agenda Item E).</p>
Project Proposal	<p><u>December 2020</u> See IAASB CAG meeting material (Agenda Item A).</p>
Development of Exposure Draft of ISA for LCE	<p><u>March 2021</u> See IAASB CAG meeting material (Agenda Item D).</p> <p><u>September 2021</u> See IAASB CAG meeting material (Agenda Item F).</p>
Development of final ISA for LCE	<p><u>September 2022</u> See IAASB CAG meeting material (Agenda Item B).</p>