

Audits of Less Complex Entities: ISA for LCE

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IAASB CAG
March 7-8, 2023 Meeting
Agenda Item G.1



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What Have We Done Since We Last Met?

September 2022

- Feedback from CAG on Authority and Group Audits
- IAASB discussion on Authority, Group Audits, Accounting Estimates and approach to revisions to remaining Parts

December 2022

- IAASB discussion on
 - Group Audits and approval of Exposure Draft relating to Group Audits
 - Part 6, *Risk Identification & Assessment*
 - Quantitative Thresholds

January – March 2023

- Task Force revisions to targeted areas to discuss with the IAASB in March 2023

Exposure Draft on Group Audits

Authority

- Prohibition to involve component auditors except limited circumstances
- Group specific qualitative characteristics in addition to those of an LCE



Incorporation of Requirements

- Requirements and EEM in new part: Part 10
- Evaluation of ISA 600 (Revised) for relevance to a less complex group

Exposure Draft

- Part 10 and Conforming Amendments
- Approved December 2022
- Comment period closes in May 02, 2023

Exposure Draft on Group Audits: Approach to Component Auditors

- Considered feedback from CAG and respondents to ED-ISA for LCE
- Board acknowledged use may not always be due to complexity of entity
- Proposed prohibition in Authority

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

...

(d) The audit is an audit of group financial statements (group audit) and:

...

(ii) Component auditors are involved, ***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)***

Proportionate Revisions to Standard



Developing Proportionate Requirements

Approach to Revisions

- Targeted revisions to respond to comments on exposure draft
- Evaluation if requirements are relevant and proportional to a typical LCE
- Additional EEM where appropriate

Targeted Areas

- Documentation (Part 2)
- Quality Management (Part 3)
- Risk Identification and Assessment (Part 6)
- Accounting Estimates (Part 7)

Part 2, *Audit Evidence & Documentation*

Feedback: Documentation would not be proportionate to an audit of an LCE

- Primary approach to address feedback: revisions for proportionality of requirements throughout the standard
- Proposed addition of EEM to address application of general documentation principles in Part 2. Further guidance may be provided in implementation guidance
- Proposed revision of specific documentation requirements based on review for duplication, location and relevance

Part 3, *Engagement Quality Management*

Feedback: Requirements could be more proportional for audits of LCEs, including engagements carried out by only a sole practitioner or engagement partner or small engagement team

Proposed revisions

- Primary approach to address feedback: made Part 3 more scalable by having separate requirements when there is more than one member of engagement team
- Deletion of repetitive requirements and EEM
- Other revisions and simplification of structure where appropriate

Parts 4 & 5 – Client Acceptance/Continuance, Initial Audit Engagements & Planning

Feedback: General support for both Parts, with requests for more EEM and suggestions how to enhance requirements

Proposed revisions to Part 4

- Removal of requirement for the engagement letter or written agreement to specify that audit is being undertaken using the ISA for LCE
- Additional EEM, including for initial audit engagements

Proposed revisions to Part 5

- Going concern requirements relocated to Part 6
- Additional EEM, including for using the work of experts and materiality

Matters for IAASB CAG Consideration

Part 2 – Part 5

1. The Representatives are asked for their views on the proposed revisions to Parts 2 – 5

Part 6 – Risk Identification & Assessment

Feedback: Part 6 is not proportional to a typical LCE, particularly entity's system of internal control and process for risk identification & assessment

Proposed revisions

- Understanding entity's system of internal control
 - Understanding of entity's risk assessment process and process for monitoring controls now direct inquiries to management
 - Requirement to understand process to prepare financial statements
- Combined identification and assessment of RoMMs
- Removed requirement to consider effect of inherent risk factors (now EEM)
- Other revisions, including new EEM, to address proportionality and clarity

Matters for IAASB CAG Consideration

Part 6

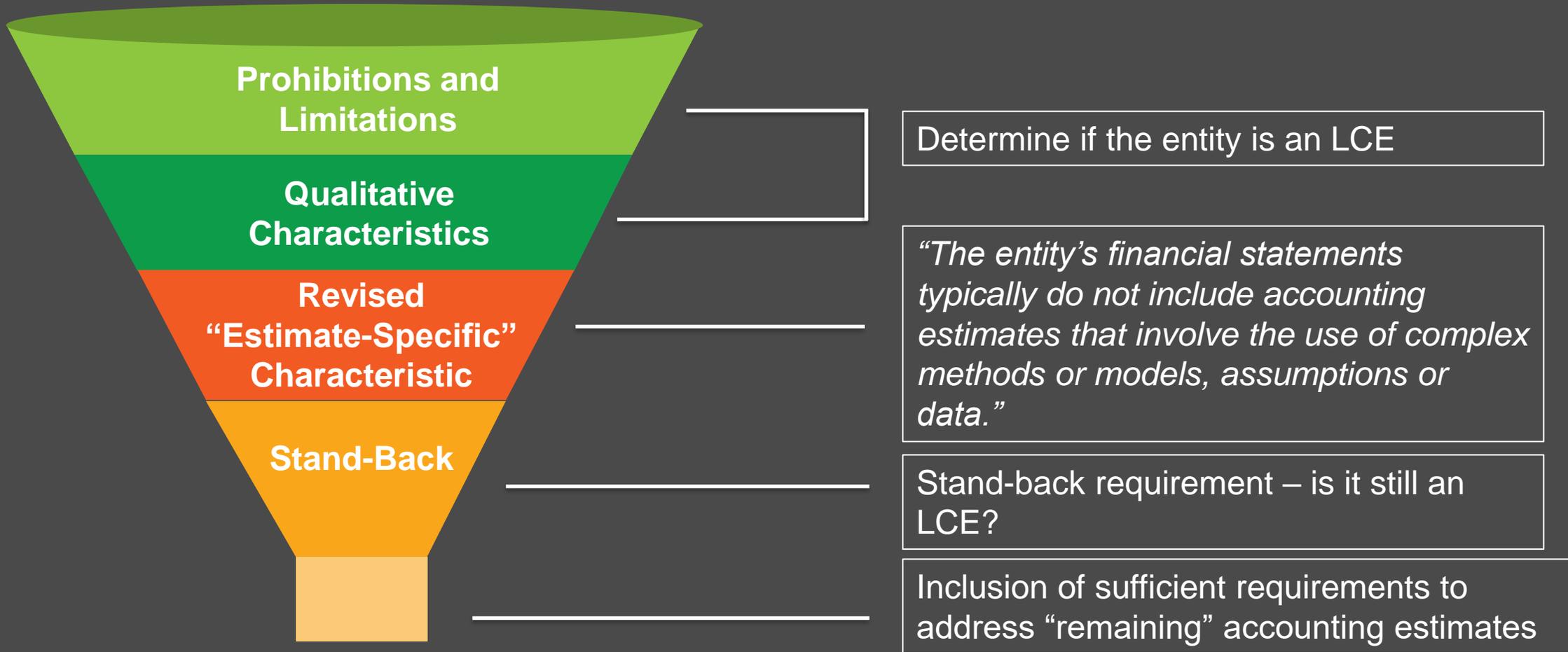
2. The Representatives are asked for their views on the proposed revisions to Part 6, *Risk Identification and Assessment*

Accounting Estimates: Proposed Changes to Requirements

Feedback: Reduce the complexity of the requirements. Allow the use of the ISA for LCE when an entity has a small number of “more complex” accounting estimates

- Approach: Revised the qualitative characteristic for accounting estimates in the Authority and reviewed ISA 540 (Revised) to identify areas where further requirements and EEM are needed given the changed scope the standard
- Proposed revisions to Part 7
 - Align structure with ISA 540 to be clearer on testing approaches
 - Added requirement regarding disclosures relating to an accounting estimate
 - Enhanced EEM to support requirements

Accounting Estimates: Addressing Authority



Matters for IAASB CAG Consideration

Accounting Estimates

3. The Representatives are asked for their views on the proposed revisions to requirements for accounting estimates included in Part 7, *Responding to Assessed Risks of Material Misstatement*
4. Any other matters Representatives may wish to raise on the project

Way Forward



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