

Meeting: IAASB Consultative Advisory Group (CAG)
Meeting Location: New York, USA
Meeting Date: March 5–6, 2019

Agenda Item E

Audits of Less Complex Entities

Objectives of Agenda Item

1. The objective of this agenda item is to discuss the IAASB's proposed Discussion Paper, *Audits of Less Complex Entities: Exploring Possible Actions to Address the Challenges*.

Project Status – What Have We Done Since We Last Met?

2. The IAASB has developed the Discussion Paper that will be presented for discussion at the upcoming IAASB meeting in March 2019. The draft Discussion Paper is presented as **Agenda Item E.2** and will form the basis of the discussions with Representatives.
3. **Agenda Item E.1** (the IAASB's issues paper for this topic) sets out the context for the development of the draft Discussion Paper, as well as the IAASB activities since September 2018.
4. **Appendix A** 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.

Matters for IAASB CAG Consideration with Respect to the Draft Discussion Paper

5. The IAASB CAG is asked to read **Agenda Items E.1** and **E.2** and provide views on the matters set out for IAASB consideration in **Agenda Item E.2**, in particular questions 1 to 3.

Material Presented – IAASB CAG Papers

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| Agenda Item E.1 | Audits of Less Complex Entities—Discussion |
| Agenda Item E.2 | Draft Discussion Paper—Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges |
| Agenda Item E.3 | Proposal for IAASB Action to Develop a Discussion Paper and Recommendations for Future Possible Actions Relating to Audits of Less Complex Entities (for reference) |

Feedback – What Did We Hear Last Time We Met?

6. Extracts from the draft minutes of the September 2018 IAASB CAG meeting, as well as an indication of how the Less Complex Entities (LCE) Working Group or IAASB has responded to the Representatives' comments, are included in the table below.

| Representatives' Comments | Task Force/IAASB Response |
|--|---|
| GENERAL | |
| Representatives were supportive of the IAASB exploring this topic, and several Representatives, including Messrs. Fortin, Hansen, Pavas, Rees, Yazar and Ms. Robert, highlighted the importance of the project, in particular in relation to certain jurisdictions. Ms. Robert also expressed support for the timeline. | Support noted. |
| Mr. Yoshii noted the importance of audit quality being the same for listed entities, regardless of size and expressed support for basing this work on the characteristics of the entity, and not its size. | Point noted. The IAASB has focused its efforts on less complex entities. At this stage the IAASB has not committed to any particular action, rather is exploring various possible actions, and is looking for input to obtain stakeholder's views about these possible actions. |
| Various concerns were expressed about where the project may go: <ul style="list-style-type: none"> Messrs. Dalkin, Mulholland and Ms. McGeachy emphasized the importance of being able to apply the standards to a wide variety of entities. They therefore expressed support for this initiative to be able to explore what more can be done for entities that are less complex applying, in some cases, complex auditing standards. Messrs. Mulholland and Hirai noted concern that any outputs from the work in this area should result in the same level of assurance as the ISAs, as it was not desirable if the outcome was a pronouncement with a different level of assurance. | Point noted. At this stage the IAASB has not committed to any particular action, rather is exploring various possible actions, and is looking for input to obtain stakeholder's views about these possible actions. Prof. Schilder explained that all audits should be of high quality and provide the same level of assurance, however there may be different ways of obtaining that assurance, which is what this project would explore. |
| Mr. Rees explained the importance of the separate standard developed by the International Accounting Standards Board, explaining the benefits that have been seen from their work in this area, although he | Point noted. |

| Representatives' Comments | Task Force/IAASB Response |
|--|--|
| further explained the different nature of the standard in context of full International Financial Reporting Standards | |
| <p>In undertaking this work, Representatives also provided suggestion for further IAASB consideration:</p> <ul style="list-style-type: none"> Ms. McGeachy noted the importance of 'think small first' in developing and revising the standards. She further encouraged the IAASB to consider how this could be achieved in the exiting standards (for example, making clear what may not apply). Mr. Hansen further encouraged exploring whether more optionality could be introduced, with consideration given to whether this is in the requirements or application material. | <p>Mr. Salole highlighted that the objective of this phase of the work is to understand the spectrum of views, so that the IAASB could make informed decisions about possible solutions to the issues and challenges. He added that the LCE Working Group would continue to consider possible solutions, including exploring how technology may be able to help.</p> |
| <p>Messrs. Fortin and Yazar encouraged the IAASB to fully consider what the appropriate solution is to fix the challenges and issues, and Mr. Hansen emphasized the importance of further work to fully understand the issues and challenges. He added that there is an expectation that there will be some kind of output from this work, but encouraged the IAASB to manage the expectations related to what this could be.</p> | <p>Point noted. The IAASB intends to undertake this consultation to obtain views about different courses of action, and will deliberate thoroughly any future activities.</p> |
| PIOB REMARKS | |
| <p>Ms. Diplock expressed support for the initiative, noting that alternatives being developed or shortcutting the requirements of the standards are not in the public interest. She highlighted that this work would be challenging, in particular in scoping the work to be undertaken, but noted the importance of the work in the public interest. She also added that as the IAASB develops its future strategy and work plans, there may be further links between this work and planned allocations of resources.</p> | <p>Support noted. Points noted.</p> |

Appendix A

Project Details and History

Project: Audits of Less Complex Entities

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

Working Group Members

The LCE Working Group comprises:

- Roger Simnett, IAASB Member and Task Force Chair
- Chun Wee Chiew, IAASB Member and IFAC SMP Committee Liaison
- Kai Morten Hagen, IAASB Member
- Rich Sharko, IAASB Member
- Isabelle Tracq-Sengeissen, IAASB Member and IFAC SMP Committee Liaison
- Brendan Murtagh, Past IAASB Member
- Gordon Cummings, CPA Canada, past member of Canadian Auditing and Assurance Standards Board
- Christopher Arnold – IFAC SMP Committee Representative

Summary

| | IAASB CAG Meeting | IAASB Meeting |
|--|------------------------------|--|
| Project commencement and preliminary discussions on audit issues relevant to Audits of Less Complex Entities | March 2017 September 2017 | March 2017 March 2018 (Executive session) |
| Discussion on the project proposal to undertake work to develop a Discussion Paper to obtain stakeholder views on matters related to issues and challenges when auditing less complex entities | September 2018 | September 2018 |

IAASB CAG Discussions: Detailed References

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|-----------------------|---|
| Information gathering | <p><u>March 2017</u></p> <p>See IAASB CAG meeting material (Agenda Item G) and meeting minutes: https://www.iaasb.org/cag/meetings/iaasb-cag-meeting</p> <p><u>September 2017</u></p> <p>See IAASB CAG meeting material (Agenda Item C) and meeting minutes: https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-madrid-spain</p> |
| Project Proposal | <p><u>September 2018</u></p> <p>See IAASB CAG meeting material (Agenda Item I) and meeting minutes (Agenda Item A) http://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-0</p> |