

Audits of Less Complex Entities¹ – Developing a Separate Standard

Please note: This is the Audits of less Complex Entities Issues Paper presented to and discussed by the IAASB in December 2020 which is provided to the CAG Representatives in March 2021 for reference purposes.

Objectives of the Meeting

1. To approve the project proposal to develop a separate standard for audits of less complex entities (LCEs) (see **Agenda Item 2-A**); and
2. To obtain the Board's views on specific matters as presented in the following:
 - The overall structure, direction and content of the [draft] audit standard
 - **Section III** – Applicability (Scope) of the [Draft] Audit Standard
 - **Section IV** – Structure of the [Draft] Audit Standard
 - **Section V** – Broad Content of the [Draft] Audit Standard
 - **Section VI** – Detailed Content of Each Part of the [Draft] Audit Standard (also see **Agenda Item 2-B**).

Board Discussion:

The project proposal for the development of a separate standard (set out in **Agenda Item 2-A**) will be discussed on Monday December 7th, 2020, with a turnaround document presented for approval on Friday December 11th, 2020.

The matters set out in this Agenda Item, and the relevant aspects of the initial working draft of the [draft] audit standard (**Agenda Item 2-B**) will be discussed on Thursday December 10th and Friday December 11th 2020. Please note the following for the Board discussion:

- Although relevant for purposes of receiving feedback on the specific matters addressed in **Sections III to VI** of this paper, the detailed drafting in **Agenda Item 2-B** will not be discussed during the December 2020 meeting. The LCE Working Group intends to focus on the detailed drafting in the next version of the [draft] audit standard, which is to be presented at the March 2021 IAASB meeting.
- The Working Group Chair will go through the questions in the order that they are set out in this Agenda Item, at the end of each section or sub-section, as applicable. As part of the last question at the end of **Section VI**, and to the extent that time allows, the Working Group Chair will ask for any broad comments on the specific Parts of the [draft] audit standard set out in **Agenda Item 2-B** (by Part).

¹ In this agenda item, an audit refers to an audit of financial statements.

I. Introduction

What Have We Done Since We Last Met?

1. The initial [draft] audit standard presented in **Agenda Item 2-B** has been developed for the Board's initial views and is a working draft.
2. The working draft presented for discussion has also benefited from input from:
 - The newly established LCE Reference Group (see paragraphs 5–8 below). Where applicable, a high level summary of the input from this group has been included in each relevant section of this Agenda Item.
 - A roundtable focused on fraud and going concern in audits of LCE's (**Appendix 3** sets out a summary of the feedback from the roundtable discussions).
 - SMP Advisory Group meetings in June and November 2020 (**Appendix 3** sets out a summary of the feedback from both meetings).
 - National Standard Setters (NSS) meeting (**Appendix 3** sets out a summary of NSS comments with regard to the applicability of the [draft] audit standard).
 - Forum of Firm's (FoF) participants (**Appendix 3** sets out a summary of the comments received).
 - IAASB Consultative Advisory Group (CAG) Representatives (**Appendix 4** sets out the draft minutes from the September 2020 CAG meeting).²
3. The LCE Working Group also published two Communiqués³ setting a summary of the group's progress on developing the [draft] audit standard.
4. **Appendix 1** sets out the members of the LCE Working Group as well as its activities. **Appendix 2** sets out the minutes from the June 2020 IAASB discussions.

Establishment of the LCE Reference Group and Its Activities

5. In its discussions about the development of a separate standard, concerns were expressed by IAASB members at the June 2020 IAASB meeting about making sure that what is developed would be usable and meet the broader expectations of stakeholders (i.e., make sure that it is 'fit for purpose'). The LCE Reference Group has been established to alleviate these concerns and to receive timely feedback on development of the [draft] audit standard, including the draft itself, before it gets released for public exposure.
6. This group consists of 15 individuals, mainly practitioners but also other interested stakeholder groups who have a vested interest in the outcome of this project (the names of the LCE Reference Group participants can be found on the [LCE Project Page](#)).
7. The objective of the LCE Reference Group is to supplement the activities of the LCE Working Group, at a higher level. Outreach was undertaken with the LCE Reference Group at regular points

² The project proposal will also be discussed with the CAG in early December 2020.

³ The other Communique is due to be published November 30, 2020.

throughout the development process to “test” the working group’s proposals in the [draft] audit standard. The activities of the LCE Reference Group have been to:

- Provide views on the direction of proposals to facilitate effective development of the [draft] audit standard. This has involved high-level discussions on strategic matters and discussions about the draft as it has been developed.
- Provide perspectives on important technical matters arising from challenges being experienced in audits of LCEs, and how these should be reflected in the [draft] audit standard.
- Advise on other matters that should be taken into consideration as the [draft] audit standard is being developed.

The LCE Working Group believes that this process has assisted with the timely development of a relevant response to the issues and challenges of auditing LCEs.

8. To date, the LCE Reference Group has met 6 times to provide input to the [draft] audit standard as it was being developed. Some of the more detailed comments from the LCE Reference Group have already been addressed through changes in the [draft] audit standard presented in **Agenda Item 2-B**, and are not further highlighted in this Agenda Item. However, a summary of the broader input from the LCE Reference Group is presented within each relevant section throughout this Agenda Item.

LCE Reference Group Feedback – Broad Feedback on the Initial [Draft] Audit Standard

- Support was expressed for the current form of the [draft] audit standard, although it was acknowledged that more effort was needed to further streamline and simplify the [draft] audit standard. One participant highlighted the importance of the work to be undertaken in this regard, emphasizing the need to be clear whether this would involve further refinement that may result in the [draft] audit standard ‘moving further away’ from the ISAs or would continue to maintain a clearer (and more direct) link to the core ISA requirements considered appropriate to an audit of an LCE.
- There was an acknowledgement of the proportionality of the standard, with general support for the outcome focused requirements that appeared appropriate for an audit of an LCE.
- However:
 - One participant questioned whether stakeholder expectations will be met by those who may have been expecting a different kind of audit standard, for example not based on the ISAs (e.g., they may already be applying the ISAs and may see limited benefit in changing to the [draft] audit standard because it is still being largely based on the requirements in the ISAs, as applicable to an audit of an LCEs).
 - It was noted by a few participants that it did not appear that there would be a substantial reduction in work effort as a result of applying the [draft] audit standard to an audit of an LCE.
- It was suggested that the standard should be field tested to determine its operability.

II. The Overarching Principles for Drafting the Separate Standard

9. As discussed with, and broadly supported by, the IAASB in June 2020, the following overarching principles have been used in the development of the [draft] audit standard:
- **Based on the ISAs**, with the same underlying concepts as the ISAs.
 - Approach to the audit is a **risk-based approach** so that it can be applied to entities with a wide range of circumstances (with the common feature of the audit being less complex).
 - **Principle-based requirements** setting out the **auditor's obligations** to help determine what needs to be done.
 - Including **objectives** (for each section) to help the auditor understand the extent of work needed to achieve the relevant objective (i.e., the link between the requirements in each section and the overall objective of the standard).
 - Focusing the auditor on exercising **professional skepticism** and **professional judgment** in undertaking their work.
 - Premising the standard on the auditor complying with **relevant ethical requirements**, and the firm (which includes sole practitioners) being subject to the IAASB's underlying **quality management standards**.
 - Drafting the standard using **concise, direct, simple language**,⁴ following **drafting principles and guidelines** to better facilitate consistency.
 - Presenting the standard in an order that **follows the flow of the process of an audit**.
 - Establishing **clear, consistent documentation requirements** that would apply to a LCE audit.
 - **Limited or no application material** (although this is an area still being explored as to the nature and extent of application material or other support materials needed to support the application of the standard, and being mindful of the volume that could be added).
 - **Using definitions within the IAASB's Glossary of Terms** in the same way that the IAASB's Glossary is used in the ISAs.
10. There are some overarching principles used in the initial [draft] audit standard presented in **Agenda Item 2-B** where further consideration and discussion is still needed (each of these is discussed further in this Agenda Item):
- **Limited essential material** (see paragraphs 63–69).
 - Being developed as a '**standalone**' standard (i.e., auditors would only need to refer to this standard without the need to refer to the ISAs with regard to the requirements' (see paragraphs 70–74).

⁴ Further consideration needs to be given to the detailed drafting, consistency, sentence structure, etc. It is intended that this will be the focus of the work for the second draft of the separate standard.

- **Basis for the auditor's opinion** based on compliance with the [draft] audit standard (not the ISAs)⁵ (see paragraphs 75–78).

LCE Reference Group Feedback

- Broadly supportive of using the same principles as ISAs – trust and confidence of users is key – not deviating from the ISAs would help maintain that trust and confidence.
- One participant expressed preference for a more 'direct' substantive approach than a principles-based approach.
- Although reasonable assurance is explained, in reality auditors are performing more work than may be needed to obtain a reasonable assurance opinion.
- Current [draft] audit standard considered easy to read and understand, although acknowledgement that drafting still needed further consideration (e.g., still some very long sentences).
- Noted that further consideration of scalability within the standard is still needed.
- Emphasized the importance of not creating a 'different' kind of audit – needs to be same quality as an ISA audit.

III. Applicability (Scope) of the [Draft] Audit Standard

11. The description of the applicability (or scoping) of the [draft] audit standard intends to set out for which types of entities or circumstances it would be appropriate to use the [draft] audit standard (i.e., the [draft] audit standard has been designed to be used by the auditor in circumstances where the audit is less complex (as described)). The core requirements contained within the [draft] audit standard have been included to the extent that they have been considered appropriate to an audit of a less complex entity. This description of the applicability is contained in the "Introduction" section to the [draft] audit standard.
12. The LCE Working Group extensively debated how to describe the applicability or the scope of the [draft] audit standard. In trying to describe a 'less complex' entity, the LCE Working Group had the view that it did not clearly capture all of the circumstances that may make an audit more complex and agreed that there would be significant judgment required, which would not be beneficial from a consistency perspective. Therefore, the LCE Working Group agreed that it was more suitable to describe those circumstances that would give rise to complexity within the audit.
13. The LCE Working Group also considered a much shorter, more prescriptive version of the applicability of the standard. However, this did not adequately describe when the [draft] audit standard was appropriate for use and it was thought a short prescriptive applicability statement that would need "application" material to further elaborate.
14. The description of when the [draft] audit standard is appropriate to be used has therefore focused on those matters and circumstances that are more complex or would lead to complexity in what the

⁵ The LCE Working Group is still discussing the basis for the auditor's opinion and the standalone nature of the standard, both of which are affected by the applicability (which is also still being deliberated). Therefore, the principles set out in this paper still need to be further considered and may change.

auditor is required to do (i.e., the response of the auditor would be proportionate to more complex circumstances). Such audits would therefore be effectively scoped out from the use of the [draft] audit standard (because there would not be requirements to address these more complex matters or circumstances in the [draft] audit standard – because the [draft] audit standard has not been designed to be used in these circumstances).

15. In the LCE Working Group's view, there are two overarching items that drive complexity in an audit: the nature of the entity, and the entity's application of the applicable financial reporting framework. Each of these is described, with examples, in the description of the applicability of the standard.
16. The LCE Working Group also continues to have the view that listed entities should be explicitly 'scoped' out. This view is broadly supported by many stakeholders with whom outreach has been performed. However, there are a few that have the view that the decision should be made on complexity and that smaller, 'straightforward' listed entities should be included within the scope of the [draft] audit standard. However, there will be no procedures within the [draft] audit standard for listed entities and therefore the standard would not be appropriate for these entities.
17. Further discussion is needed about whether to extend the scoping out of listed entities to public interest entities (PIE's) more broadly. However, some, but not all, of these types of entities will likely bring the need for more complexity in the audit (for example there is greater accountability, expectations of the public and exposure). Furthermore, the LCE Working Group also wants to understand the outcomes and consequential impact of the International Ethics Standards Board for Accountants (IESBA) project on the definition of listed entities and PIE's. At this point, therefore, the LCE Working Group has this as a matter for further consideration.
18. Individual jurisdictions may also want to prescribe further limits on the use of the standard (for example, having a quantitative size limit such as revenue, balance sheet totals or number of employees). The description of the applicability recognizes this and also notes that laws or regulations or other national requirements may also prohibit use of the standard in a particular jurisdiction.
19. As the initial draft of the [draft] audit standard is developed, and many matters are still being considered and progressed, the description of the applicability is likely to change. For example, as explained in paragraphs 48–62, there are several topics for which the content within the [draft] audit standard is still being deliberated, including:
 - Group audits;
 - Using the work of experts; and
 - The auditor's considerations when the entity uses a service organization.

As deliberations about these matters are progressed, consequential changes will likely be needed to the description of the applicability of the [draft] audit standard related to these topics.

20. There may be situations where an auditor commences an audit using the [draft] audit standard and then as more information is obtained realizes that the standard may not be appropriate for the audit, and that it is necessary to rather use the ISAs. This situation and how to transition still needs to be fully contemplated by the LCE Working Group, but within the Introduction Boxes in Parts 4 (Planning)

and 5 (Risk Identification and Assessment) there are reminders for auditors to keep considering whether the standard is appropriate.

21. In addition, the LCE Working Group also considered a ‘stand-back’ toward the end of Part 5 (Risk Identification and Assessment) for auditors to reconsider whether the standard is still appropriate before having gone ‘too far’ in the audit.
22. The LCE Working Group viewed the completion of planning activities and the risk assessment process to be critical points in the audit lifecycle, where the auditor should reconfirm their continued use of the [draft] audit standard. In forming this view, the LCE Working Group considered that the requirements in the [draft] audit standard in subsequent Parts (6 through 8) are premised on the fact that the facts and circumstances of the audit continue to align with the applicability criteria. If this were not the case, then the auditor may encounter an area of complexity not covered in the separate standard, which may have implications for the overall sufficiency of audit evidence or the audit report.

LCE Reference Group Feedback

- Strong view that complexity of the audit should drive the applicability of the standard – and it should be clear that its about complexity of the audit (not used interchangeably).
- The description of the applicability of the [draft] audit standard needs to be clear and succinct.
- Some had the view to limit the use of too much professional judgment in determining whether the [draft] audit standard is appropriate for use or not, others supportive of applicability – right balance of judgment and prescriptiveness.
- Mixed views on whether to exclude listed entities and also mixed views on excluding PIEs.
- Encouragement that any restrictions take into account the public sector.
- Judgments about applicability should be documented on the audit file.
- Need to ensure that applicability reflects current circumstances of the environment (e.g., may LCE’s currently conduct their business using e-commerce).
- Consideration should be given to how other types of reporting with the financial statements may also affect complexity (e.g., integrated reporting).

Matters for Board Consideration

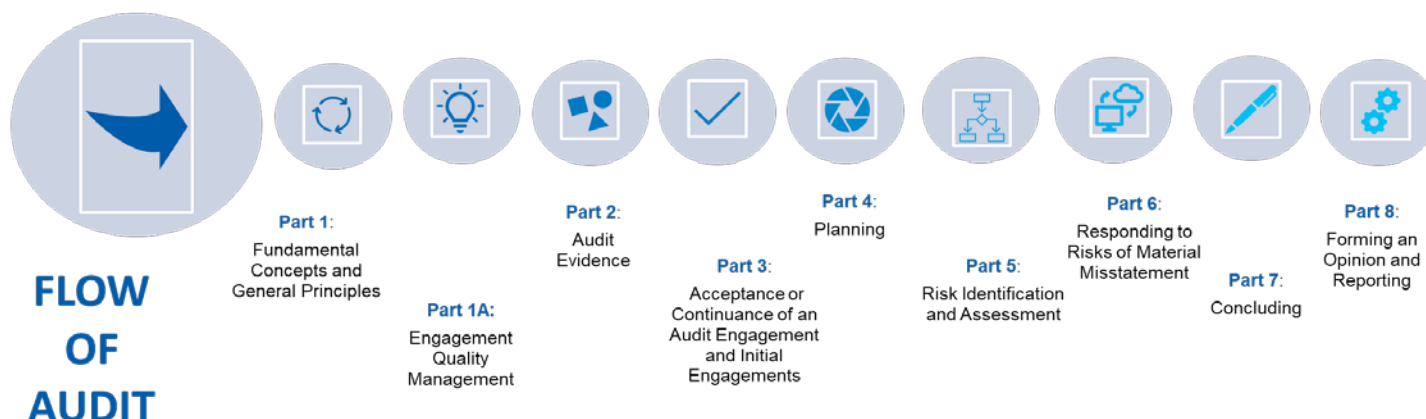
1. The Board is asked for views on:
 - (a) The approach to describe the applicability of the [draft] audit standard by linking the scoping to the nature of the entity and the application of the applicable financial reporting framework.
 - (b) A stand-back with regard to using the standard, and whether this is at the appropriate point (i.e., once the risk identification and assessment is done).
 - (c) The matters described as leading to complexity in the audit when determining applicability as described in the “Introduction” section of **Agenda Item 2-B**.

IV. Structure of the [Draft] Audit Standard

Flow of the [Draft] Audit Standard

23. The [draft] audit standard has been developed to follow the flow of an audit. This is expected to help with the practical understanding of how the requirements in the standard should be implemented.

24. A outline of the flow of the [draft] audit standard is presented below:



25. The content (i.e., the requirements) have been grouped by topic in each relevant “Part.” It is initially envisioned that the [draft] audit standard will consist of nine principle Parts that follow the flow of an audit engagement (rather than by subject matter like the ISAs). The “Parts” noted above may be further split or aggregated and/or renamed as the [draft] audit standard is further developed.

26. The Parts are preceded by an “Introduction” to explain the applicability (scope) and authority of the [draft] audit standard, and other relevant matters about the audit, including:

- The concept of reasonable assurance (including the inherent limitations of an audit).
- A reminder that the preparation of the financial statements is the responsibility of management of the entity.
- A description of the format of the standard, as well as the authority between the requirements and the essential material.
- An explanation of where the definitions can be found (i.e., the IAASB Glossary of Terms).
- Other relevant standards on which the [draft] audit standard is premised (i.e., standards relating to firm quality management and ethical requirements relating to an audit of financial statements).

27. Parts 1, 1A and 2 are ‘overarching’ Parts and apply more generally to the whole audit. Part 1 details the broader, more fundamental concepts and principles for an audit of financial statements including the concepts of sufficient appropriate audit evidence, and the concepts of professional skepticism and professional judgment.

28. Part 1A details the requirements for the engagement partner with regard to managing quality for the audit. The LCE Working Group is of the view that setting this out in a separate section upfront emphasizes the importance of quality management, and also makes it clear that the engagement

partner's responsibilities are in one place. ISQM 1⁶ has not been specifically addressed within the requirements of the standard, but it is set out in the Introduction section to the standard that use of the standard is premised on the use of ISQM 1 or national requirements that are at least demanding.

29. Part 2 sets out the broader concepts and matters that are more directly related to the procedures in the Parts that follow, such as:
- Procedures for gathering audit evidence (including types of substantive tests).
 - Considerations for auditor's that apply when undertaking audit work throughout the audit process (i.e., not limited to one Part) in relation to fraud, laws and regulations, and related parties. A link back to the broader requirements in this Part have been included in Part 6 (where the auditor is more likely to be undertaking some of the procedures described in Part 2)
 - Overarching requirements for communication and documentation (i.e., that apply to all parts). This has been approached in the [draft] audit standard in the same way as the ISAs – i.e., overarching requirements in, for example, International Standard on Auditing (ISA) 230,⁷ with specific requirements within each ISA (each Part also contains such specific requirements). Each Part where there are specific documentation requirements also refer back to the overall requirements.
30. Participants in the LCE Reference Group suggested swapping Parts 2 and 3 because they had the view that acceptance would be the first thing that is done in an engagement. The LCE Working Group considered whether to make this change, but on balance had the view that it was better to keep all of the more “overarching” matters together and then start with the more “procedural” requirements which then follow the flow of the audit (Parts 3 through 8).

Structure of Each Part

31. Each Part is structured in the same way:
- **An introduction box**—setting out a summary of the content of that Part. In some Parts there may also be limited essential material where it is relevant to the context of that Part.
 - **Objective(s)**—The objective(s) in each Part serve to focus the auditor on the desired outcome of the audit work while assisting the auditor in understanding what needs to be accomplished (i.e., understand the extent of work needed to achieve the relevant objective(s)), and deciding whether more needs to be done in the particular circumstances of the audit (see further explanation of objectives below).
 - **Requirements**—detailing, in clear text and in a straightforward manner, all of the requirements that need to be complied with, unless the requirements are conditional and the condition does not exist (these are clearly articulated as conditional, e.g., if the *xyz condition exists*, the auditor shall...).

⁶ International Standards on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

⁷ ISA 230, *Audit Documentation*

- **Specific Communication Requirements**—if there are any specific communication requirements related to the matters included in that part, they have been grouped together so that it is clear what all the specific communications are that need to be made.
- **Specific Documentation Requirements**—all the documentation requirements related to specific matters within that Part are grouped together so that the specific matters that need to be documented are clear.

LCE Reference Group Feedback

- Strong support for following the flow of the audit.
- Caution against trying to develop a methodology.
- Question about whether acceptance / continuance should be included within Part 2 as this was a firm responsibility.
- Preference for splitting concluding and reporting (i.e., separate Parts).
- Support for including communication requirements as broader topics – noted the importance of communications.
- Supportive of ‘grouping’ communication and documentation requirements together in each Part.

Matters for Board Consideration

2. The Board is asked for views on:
 - (a) The flow of the [draft] audit standard, including whether the Parts appropriately reflect a practical approach to the audit.
 - (b) Whether Part 1A on Engagement Quality Management should be maintained in a separate Part or whether it should be incorporated into each relevant Part.
 - (c) The overall structure of each individual Part as described in paragraph 31.
 - (d) Whether there are any other matters related to overall structure that the LCE Working Group should consider as it further develops the [draft] audit standard.

V. Broad Content of the [Draft] Audit Standard

Introduction Boxes

32. Within each Part of the [draft] audit standard, the LCE Working Group agreed to include ‘introduction boxes’ to make clear what is being covered within that Part, and cover any other matters of an introductory nature deemed necessary. The LCE Working Group have considered the balance of information to include in these introductory boxes, and has the view that these should be used throughout as they would likely be helpful to focus what is included in each “Part” of the [draft] audit standard.

Objectives

33. The approach for developing the objectives of the [draft] audit standard is similar to the objective-based construct of the extant ISAs where the overall objective of the auditor⁸ (derived from the objective of an audit) is supported by objectives in individual ISAs (this is consistent with Board direction from the June 2020 IAASB discussions). Similarly, in the [draft] audit standard, the overall objective of the auditor (as outlined in the Fundamental Concepts and General Principles Part 1 of the [draft] audit standard) is supported by the objectives in each of the “Parts” of the standard covering the various stages of the audit.
34. The objectives in the [draft] audit standard are as aligned to the ISA objectives. However, not all the objectives have been specifically dealt with because of the different structure and flow of the [draft] audit standard. Individual objectives for each Part have been developed based on the matters addressed within that Part. In some Parts there may be numerous topics addressed (for which the ISAs for these individual topics would each have its own objective(s)), but the objective for that Part in the [draft] audit standard may be more overarching. **Appendix 5** sets out a summary of where the relevant ISA objectives are addressed in the objectives within the [draft] audit standard.
35. The LCE Working Group deliberated about whether to have more detailed objectives, but on balance agreed that including too many matters within the objectives was not necessary, and agreed to keep them broader and relevant to the overarching matters addressed within each Part. The LCE Working Group considered the intended outcome of the objectives and debated whether what was included in the detailed objectives achieved the overarching objective. In addition, there was also the view that the introduction boxes set out in more detail what is covered in each Part and there is therefore a link between the objectives for each Part and the topics addressed within that Part.

Definitions

36. ISAs usually include, in a separate section, under the heading “Definitions” a description of the meanings attributed to certain terms for purposes of that ISA (and more generally). The intent for use of the Definitions section in the ISAs is to highlight those new key terms and concepts being introduced by that specific ISA, which should be helpful to readers and translators, and to also define and explain certain terms and concepts without disturbing the flow of the requirements.
37. The IAASB’s Glossary of Terms⁹ sets out all of the definitions in the IAASB’s standards (including the ISAs) as well as descriptions of some commonly used terms within the IAASB’s International Standards. The IAASB’s Glossary of Terms is updated as necessary when new standards become effective and there have been changes to the definitions with that new or revised standard.
38. In deliberating whether the [draft] audit standard should contain Definitions, the LCE Working Group is of the view that it would be more appropriate for the [draft] audit standard to refer to the IAASB’s Glossary of Terms rather than including a Definitions section within the [draft] audit standard.

⁸ The overall objectives of the auditor when conducting an audit of financial statements are included in ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

⁹ The Glossary of Terms relating to International Standards issued by the IAASB in the Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements contains a complete listing of terms defined in the ISAs. It also includes descriptions of other terms found in ISAs to assist in common and consistent interpretation and translation.

39. The following matters were considered by the LCE Working Group in its deliberations on the Definitions:
- Because the [draft] audit standard is being developed on the basis of the ISAs, with the same underlying concepts as the ISAs, it is envisioned that the definitions, terms and concepts used in the text of the [draft] audit standard would be fully aligned with the definitions contained in the IAASB Glossary of Terms that relate to the ISAs;¹⁰
 - Including Definitions in the [draft] audit standard (which would not be different than those already in the IAASB's Glossary of Terms) would be repetitive and also add to the length of the [draft] audit standard with no notable benefit; and
 - This approach may also alleviate some of the need to update the [draft] audit standard each year, considering that the IAASB Glossary of Terms is not an authoritative document, and conforming and consequential amendments are not needed unless there are changes to terms found in ISAs to assist in common and consistent interpretation and translation.¹¹
40. The IAASB's Handbooks are currently being digitized, where access to relevant definitions from within each standard will become easier. It is intended that the [draft] audit standard, once finalized, will also be published in a digital format and have the same features and navigability as the digitized ISAs.

LCE Reference Group Feedback

- Broadly supportive of approach to objectives, including approach to have overarching objective and then an objective for each Part.
- Support for the approach to definitions – but highlighted the importance of having the same meaning.

Matters for Board Consideration

3. The Board is asked for views on the LCE Working Group's proposals regarding:
- (a) Introduction boxes.
 - (b) Use of objectives.
 - (c) Approach to definitions.

Requirements

41. The development of the [draft] audit standard has been undertaken using the requirements from the current ISAs, and where relevant, newly revised ISAs, as the basis. It is intended that these requirements will enable the achievement of the objectives of each part of the standard and the

¹⁰ The Glossary also includes terms from other IAASB pronouncements. When more than one definition for a term is present, the [Draft] Separate Standard will use the ISA definition.

¹¹ The IAASB Glossary of Terms is updated annually by Staff in connection with the finalization of the Handbook to incorporate terms included in new or revised pronouncements that are coming into effect.

overall objective of the auditor, in the circumstances for which the standard is designed to apply (i.e., when the audit is deemed to be less complex, taking into account the nature of the entity, and the entity's application of the applicable financial reporting framework). There has been a focus on including those requirements that are outcome oriented (and not procedural).

42. The relevant requirements in the [draft] audit standard have been presented in accordance with the flow of an audit engagement as described above. Therefore, for some ISAs, requirements related to a specific topic may be spread across the [draft] audit standard as appropriate.
43. **Appendix 6** to this Agenda Item sets out, at a high-level, how the ISAs relate to each Part within the [draft] audit standard. The allocation to “broadly covered” and “somewhat covered” in Appendix 6 is intended to illustrate ‘how much’ of an ISA has been incorporated in the [draft] audit standard at a very high level and is judgmental.
44. In developing the [draft] audit standard the LCE Working Group are “mapping” the specific ISA requirements to the requirements within the [draft] audit standard, which will illustrate the proportionality of the [draft] audit standard for an audit of an LCE (see **Agenda Items 2-C and 2-D**). This mapping illustrates when specific requirements have not been addressed within the [draft] audit standard with a brief supporting description. It is not intended that the mapping will be discussed at the December IAASB meeting.
45. The requirements also intend to communicate what needs to be done more appropriately for the intended audience of the [draft] audit standard. Where possible the requirements of the [draft] audit standard have been drafted largely using the following basic principles:
 - Simpler numbering system, limiting the number of “sub-bullets.”
 - One thought per paragraph.
 - Combining requirements from the ISAs where feasible and to avoid repetition.
 - Articulating the requirements in a more straightforward way and making sure that the language used to communicate such requirements is clear and understandable (more work will need to be done on this as the draft is progressed).

However, further efforts will be made to more formally develop drafting principles and guidelines¹² for drafting the [draft] audit standard, including consistency of the drafting.

ISAs Not Covered by the [Draft] Audit Standard

46. It is envisioned that not all extant ISAs (or parts of extant ISAs) will be covered by the core requirements of the [draft] audit standard, as they do not apply broadly to what the LCE Working Group envisions are audits of LCEs.
47. The full (part) ISAs that have not be covered in the [draft] audit standard are:
 - ISA 501, *Audit Evidence—Specific Considerations for Selected Items* (section relating to Segment Information);

¹² The LCE Working Group is coordinating with the Complexity, Understandability, Scalability and Proportionality (CUSP) Working Group as it develops the drafting principles and guidelines for the ISAs more broadly.

- ISA 610 (Revised 2013), *Using the Work of Internal Auditors*; and
- ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

LCE Reference Group Feedback

- Broadly supportive of ISAs not covered, but questions about whether all LCE audits would necessarily exclude these topics (and whether the auditor would be able to refer to the ISAs in these situations)
 - One jurisdiction also mandates the use of internal audit for certain entities (which includes entities deemed to be less complex) and this may therefore limit the use of the standard.
- Concern was expressed that as some ISA requirements are not included, that reasonable assurance may not be achieved.
- It was noted that as the ISAs have become more complex and longer, the procedures required for an LCE audit, in practice, have not significantly changed, so broad support for the approach to identifying the “core” requirements (it was noted that the mapping documents have been very helpful in understanding the rationale for what was, and was not, included in the [draft] audit standard).
- One participant cautioned about continually adding as the standard is progressed (i.e., maintaining the balance) – it was noted that conciseness would be key to acceptance.
- The importance of the drafting and language used was highlighted – needs to be simple and clear and not subject to different interpretations.
 - One participant expressed a preference for keeping as close as possible to the wording of the ISAs so as not to create unnecessary differences.
 - Specific examples of drafting where further clarity was needed were highlighted in the outreach with the LCE Reference Group.
- Encouragement to avoid repetition of (and within) requirements.
- One participant cautioned about the extent of ‘exceptional circumstances’ in the current [draft] audit standard and encouraged that some of these be reconsidered whether they were really necessary.

Matters for Board Consideration

4. The Board is asked for views on:
 - (a) The LCE Working Group's approach of including the ‘core requirements’ within the standard.
 - (b) The ISAs (or part thereof) not addressed within the [draft] audit standard (as set out in paragraph 47).

Specific Audit Areas Still Under Consideration

48. There are some topics addressed by the ISAs that are still under consideration as to how these are, or are not, included in the [draft] audit standard. Although these topics are broadly intended to cover circumstances that would more likely result in complexity within the audit, there are many instances

where they would be applicable to less complex circumstances. These topics relate largely to where “others” are involved in the audit.

49. The LCE Working Group has mixed views about how much is to be included and is still deliberating how to explain the ‘threshold’ from less complex to more complex for these topics. Broadly though, there is agreement that the [draft] audit standard should include these topics. The areas still under consideration include:
- Group audits.
 - Using the work of experts.
 - The entity’s use of a service organization.
50. Each of these topics has been included in the initial [draft] audit standard (in a very limited way), with further deliberation (as needed) once the LCE Working Group has received views from the Board on these matters.

Group Audits

51. The LCE Working Group agrees that group audits should not be scoped out completely – there may be many instances where the audit of an entity would be considered less complex for the purpose of the [draft] audit standard even if there is a consolidation process. The group structure would need to be ‘straightforward’ and bring in no other attributes of complexity that are described in the applicability of the standard.
52. However, the LCE Working Group has mixed views about what should be included within the [draft] audit standard with regard to a group audit.
53. There is the view that the ‘boundary’ to describe those types of group audits that would be included in the applicability of the standard should be well-defined. For example, the involvement of other auditors (component auditors) would bring a complexity that is not consistent with the intention of this standard (e.g., there could be access issues, different cultures and languages, different laws and regulations, etc.), and therefore the ‘boundary’ could be the use of other component auditors¹³ (i.e., there would be no requirements within the standard addressing any considerations with regard to component auditors). The advantage of this approach would be that there would be little ‘grey’ area because it is clear when the [draft] audit standard is appropriate to use, and when it is not. However, this may inadvertently scope out groups which, other than the use of component auditors, would be able to use the [draft] audit standard appropriately.
54. There is another view that component auditors do not drive complexity, and that it would be other circumstances and matters that would drive the auditor back to using the ISAs (i.e., the group could be scoped out because the nature and circumstances of the group may give rise to complexity as described in the applicability of the standard and, therefore, scope out the uses of the [draft] audit standard for that audit). In light of this view, the [draft] audit standard should include considerations related to the use of component auditors. The benefit of this approach would be that more groups, that would otherwise ‘qualify’ could use the [draft] audit standard (for example, there are only a few

¹³ The auditor may be auditing all of the entities within the group and therefore there is no need for other component auditors, and therefore would be able to apply the requirements of the [Draft] Separate Standard.

component auditors involved, which are all in the same jurisdiction). However, this makes the decision with regard to group audits much more judgmental and therefore there is a greater risk that the [draft] audit standard may be inappropriately used in certain circumstances. It would also require more documentation of the judgments as to why the standard is being used, as well as more content within the standard (which will further lengthen it).

55. The LCE Working Group will further consider group audits as it progresses the draft, and is looking for Board views about how group audits should be reflected within the [draft] audit standard.

LCE Reference Group Feedback

- Broadly supportive of including group audits, although there were a few that did not support the inclusion of group audits at all (mainly because of jurisdictional issues that resulted in more complexity in these types of audits).

Matter for Board Consideration

5. The Board is asked whether it agrees with the proposed approach to have a clear ‘boundary’ (i.e., there are no component auditors involved in the group audit), or whether further consideration is needed about how to incorporate group audits deemed to be less complex (i.e., describing what drives complexity in a group audit as the basis for deciding whether an audit is scoped in or out)?

Using the Work of an Auditor’s Expert

56. Similar to group audits, the LCE Working Group agrees that using the work of an auditor’s expert should not be scoped out completely – there may be many instances where the audit of an entity would be considered less complex for the purpose of the [draft] audit standard even if an expert is used. For example, the entity may have land and buildings that are carried at valuation for which a valuation expert is used. Or the entity may have accounting estimates that are ‘relatively simple’ for which a valuation expert is used.
57. The LCE Working Group is still deliberating as to how to describe those circumstances where the [draft] audit standard would still be appropriate even if an expert is used. Initial views by the LCE Working Group about what needs to be described in the applicability (or scoping) of the standard relate to the complexity of the underlying transaction or balance, but further deliberation about these matters is needed.
58. In the initial [draft] audit standard presented for discussion there are limited requirements for using the work of auditor’s experts, but these may develop as these matters are further deliberated.

The Entity’s Use of a Service Organization

59. Similar to the previous two topics that are still under consideration, the LCE Working Group agrees that an entity using a service organization should not, on its own, scope the audit out from use of the [draft] audit standard. There may be many instances where the audit of an entity would be considered less complex for the purpose of the [draft] audit standard even where the entity uses a service

organization. For example, many entities that would otherwise be able to use the [draft] audit standard may use a service organization to process its payroll.

60. The LCE Working Group is still deliberating as to how to describe those circumstances where the [draft] audit standard would still be appropriate for use even if a service organization is used.
61. Initial views about what needs to be described in the applicability (or scoping) of the standard relate to the auditor's ability to obtain the necessary audit evidence fairly easily from records held at the entity or having access to relevant records at the service organization (including, if applicable, in relation to controls at the service organization). Furthermore, the transactions being processed will need to be 'fairly straightforward.'
62. In the initial [draft] audit standard presented for discussion there are limited requirements with respect to using service organizations, but this may develop as these matters are further deliberated.

LCE Reference Group Feedback

- Noted by one participant that inclusion of the matters related to the entity's use of a service organization would be burdensome unless linked to significance or materiality.

Matters for Board Consideration

6. The Board is asked for its views on the LCE Working Group's initial proposals to include limited material related to:
 - (a) Using the work of an auditor's expert; and
 - (b) The entity's use of a service organization.

Essential Material

63. Because the audits for which the [draft] audit standard is being developed are less complex, the intention is to develop requirements that are more direct and straightforward, with the objective of keeping the [draft] audit standard concise and succinct. The addition of any application or other explanatory material would add to the length of the standard. However, the purpose of application and other explanatory material is to provide further explanation of the requirement and guidance for carrying them out, in particular it may:
 - Explain more precisely what a requirement means or is intended to cover; and
 - Include examples of procedures that may be appropriate in the circumstances.

Accordingly, how much application or other explanatory material to be included continues to be explored.

64. At its June 2020 meeting, with respect to views about application and other explanatory material in the [draft] audit standard, the Board encouraged the LCE Working Group to develop a standard that does not require, as a pre-requisite for use, auditors who are familiar with ISAs (as this would likely limit the use of the standard over time). Rather, the Board encouraged the LCE Working Group to

consider how the [draft] audit standard for audits of LCEs could be developed as a standalone, self-contained standard (without reference back to the ISA for additional guidance).¹⁴ The Board also encouraged the LCE Working Group to therefore consider the need for implementation support materials to help apply the [draft] audit standard when it is issued.

65. On balance, the preliminary thinking of the LCE Working Group is that the [draft] audit standard should contain only very limited application material (called “essential material”) to address the more overarching concepts used within the [draft] audit standard, to meet the objective of keeping the [draft] audit standard succinct and concise, but still allowing for appropriate application of the core requirements, including essential context. The LCE Working group is also mindful that it will need to further explore with others (for example, with the International Federation of Accountants (IFAC) or NSS) about developing support materials for the effective implementation once the standard has been finalized.
66. Essential material in the context of the [draft] audit standard serves a similar purpose than application material in the ISAs, but it is targeted at a higher level (i.e., a conceptual and contextual level), since the need for further explanation about the requirements is mostly reduced or eliminated taking into account the nature of audits for which the [draft] audit standard has been designed. Essential material does not in itself impose a requirement or expand any requirement; rather, it is used when the explanation or guidance it provides is considered to be so important that including it in the standard and positioning it alongside the requirement(s) are deemed necessary and informative for a proper understanding of the requirement(s).
67. In further considering how ‘limited’ essential material could be included in the [draft] audit standard, the LCE Working Group has explored several ways that this could be done. The working group explored a ‘shorter version’ and a ‘longer version’ of application material at the back of the standard (similar to how the application material is presented after the requirements in the ISAs) but it was highlighted that these two options had the potential to continue to add to the length of the standard. In addition, it was found to be very judgmental as to what could be added from the current ISAs application material. Some LCE Working Group members also noted that some of the application material being considered was more educational in nature and should not form part of the standard if it was to be kept succinct.
68. In light of the discussions related to the role of essential material within the [draft] audit standard, the LCE Working Group has agreed to include, where appropriate, essential material within the standard where it was thought that this material is crucial to support the requirements (and taking into account who may be using this standard). It was agreed that this would be limited in nature but will be distinguished from the requirements within the standard by presenting this material in *italics* (and highlighted in light blue). The LCE Reference Group has highlighted many areas where essential material is needed to help enhance the usability of the standard. The LCE Reference Group also suggested that these should all be presented after the relevant requirement, and distinguish them

¹⁴ These matters are still being deliberated as the [draft] audit standard is being developed.

further from the requirements by not numbering them (these matters are still to be considered by the LCE Working Group).

69. The content of the essential material includes a focus on concepts and explanations of ‘why’ procedures are required, and does not include material that is educational or examples. However, for the next draft of the standard the existing application and other explanatory material within the ISAs will be further assessed to determine whether there is anything else to be added (being mindful about the length of the standard).

LCE Reference Group Feedback

- Broadly supportive of shorter standard and encouraged LCE Working Group to think “less is more.”
- Encouragement to establish a very clear convention as to the inclusion of application or essential material.
- Highlighted that it was important to have material to support those requirements that were continually identified as “pain points.”
- Broad support for current approach to including “essential material”, but specific areas noted where more is needed.
- Noted the importance of broader support materials for the application of the standard.

Matters for Board Consideration

7. The Board is asked for views on the LCE Working Group’s approach to “essential material” within the standard.

Other Matters Still Under Consideration

Standalone Standard

70. The standalone nature of the standard (i.e., how the standard interacts with the ISAs, if at all) is still being deliberated and is partly dependent on the applicability of the standard (see discussion on applicability in Section III). The LCE Working Group agrees that it needs to be clear when an auditor is in this standard and when they are not.
71. Judgments have been made as to what is ‘core’ to an audit of an LCE (see discussion about requirements above) and the [draft] audit standard does not contain all of the requirements that would address all circumstances in an audit (like the ISAs). If the audit has circumstances or transactions that are considered complex, and not covered by the [draft] audit standard it would not be appropriate for the auditor to use the [draft] audit standard because it is purposely designed for entities with particular circumstances, and does not contain the objectives and requirements to support auditing more complex matters.
72. The initial [draft] audit standard has been developed as ‘standalone’ (i.e., no references back to the ISAs for those circumstances that are not addressed within the [draft] audit standard). In the view of the LCE Working Group, advantages of a standalone standard include:

- The facilitation of an auditor's report referring to the [draft] audit standard, as all of the requirements are within the one standard.
- Removing the need to establish a threshold to distinguish between when the requirements in the [draft] audit standard would be adequate and when it would be necessary to refer to requirements in another set of standards (such as the ISAs).
- The standard can be used by auditor's who do not use the ISAs (and would therefore not need to have the knowledge of the ISAs to be able to refer back).
- Clearer requirements will assist with the boundaries of the audit and lead to less ambiguity, which will make it easier for all to understand what is required to be done (which may assist, for example, firm monitoring activities and external inspections).

In addition, the LCE Working Group has the preliminary view that there is always the ability to (informally) refer back to the ISAs for guidance if needed (for example, to certain application material of the ISAs) without it being intrinsically embedded within the [draft] audit standard.¹⁵

73. However, there are still ongoing deliberations about various topics that may result in a change of this view as the standard is being further developed.
74. How 'standalone' the standard is, will also impact where in the IAASB's International Standards the [draft] audit standard will be presented.

LCE Reference Group Feedback

- Clarity needed on how (and if) the [draft] audit standard can link back to the ISAs where some complexity is exhibited – this hybrid model would demonstrate flexibility and acknowledge there may be some complexity in all audits.
 - However, there were also preferences expressed for a standalone audit, in particular to make the reporting clear.
- While developing the [draft] audit standard, one participant noted that the standard may not be usable if the auditor did not have a knowledge of the ISAs, however other participants did not express a similar view.
- It was highlighted that it was important to have an "exit" point if complexity is encountered.

Basis for Auditor's Opinion

75. With regard to the auditor's report, the LCE Working Group is deliberating matters related to the basis of the auditor's opinion, in particular the standard(s) with which compliance is asserted. There were mixed views among the LCE Working Group whether this should be that the audit was conducted in accordance with the ISAs, or rather in accordance with the [draft] audit standard.
76. Those that support the former position have the view that today an audit of an LCE is conducted using the ISAs, which involves "filtering" by the auditor and not using those requirements that do not

¹⁵ Auditors today may refer to sources other than the ISAs for additional guidance when performing an audit (e.g., textbooks, methodology materials, industry guides, etc.) – the ISAs may be another source for the auditor using the [Draft] Separate Standard.

apply or are not relevant for an audit of an LCE. Therefore, if the [draft] audit standard is based on the ISAs, the auditor is in essence still applying the same requirements and the [draft] audit standard just offers a different way of getting to the same outcome, and accordingly it could be stated that the audit was conducted in accordance with the ISAs.

77. Alternatively, although the auditor's procedures and related activities are done according to the requirements of the [draft] audit standard, which are based on the concepts and requirements of the ISAs, in an ISA audit there may have been additional considerations, key judgements and documentation of those matters that do not apply or are not relevant (including some aspects that may have been further followed up and that resulted in work being performed). If the [draft] audit standard is used, those requirements that do not apply or are not relevant have already been filtered out "on behalf of the auditor" (largely through the judgments made when determining the applicability of the [draft] audit standard to the audit engagement). Therefore, the auditor would not be able to assert compliance with the ISAs, and it would be more appropriate to state that the audit was conducted in accordance with the [draft] audit standard.
78. There have also been questions from outreach about how a reasonable assurance opinion can be attained if a set of standards that are not the ISAs is used. An ISA audit is not the only way of obtaining reasonable assurance and being able to express a reasonable assurance opinion or conclusion – for example, an engagement conducted in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* can also result in a reasonable assurance opinion.

LCE Reference Group Feedback

- A few participants cautioned about creating a two-tier audit system by referring to a 'different' audit standard. It was suggested that consideration be given to incorporating a reference to both the ISAs and the [draft] audit standard.
- Other participants supported reference to the [draft] audit standard.

Appendices

79. In developing the [draft] audit standard the LCE Working Group have also agreed that some of the "example" documents within the ISAs would be helpful, including:
- An example engagement letter.
 - An example management representation letter.
 - An example auditor's report (clean opinion).

Although not presented within the current [draft] audit standard the intention is to add these for the next version presented for discussion.

80. In addition, the LCE Working group intends to develop certain material that in its view would be helpful, including an appendix setting out fraud risk factors for LCEs and an appendix setting out the assertions (other items may also be identified as the development work is progressed).

LCE Reference Group Feedback

- Support was expressed for example documents in the Appendices.
- One member encouraged that an example of a modified auditor's report also be included.

Matters for Board Consideration

8. The Board is asked for views on the matters still being considered as set out in paragraphs 70–78 including:
- (a) The standalone nature of the [draft] audit standard; and
 - (b) The basis for the auditor's opinion.

VI. Detailed Content of Each Part of the [Draft] Audit Standard

81. The [draft] audit standard focuses on a risk-based approach to the audit. As a result, there is a focus on the procedures to identify and assess the risks of material misstatement, and the auditor's responses thereto.

Part 1—Fundamental Concepts and General Principles

82. Part 1 of the [draft] audit standard outlines the overall objective of the auditor and addresses those fundamental concepts and responsibilities of the auditor throughout the audit (i.e., not specific to any one area, but are more overarching in nature), including:
- The concept of sufficient and appropriate audit evidence.
 - Professional judgment.
 - Professional skepticism.
83. In including the relevant requirements related to professional skepticism, the LCE Working Group has 'elevated' the requirement introduced in ISA 315 (Revised 2019)¹⁶ that describes professional skepticism as "involving performing procedures in a way that is not biased towards obtaining audit evidence that may be corroborative or towards excluding audit evidence that is contradictory" to apply more broadly (in the ISAs, this would only apply to ISA 315 (Revised 2019) with a similar requirement in ISA 540 (Revised)).¹⁷ The LCE Working Group is of the view that although this may extend the requirement beyond what is required in the ISAs, this is still appropriate and is not onerous on an auditor, since the expectation is that an auditor is applying their professional skepticism throughout the audit as opposed to limiting the requirement to risk assessment procedures. This is also supported by the new material on professional skepticism that has been included in ISA 220 (Revised).¹⁸

¹⁶ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

¹⁷ ISA 540 (Revised), *Auditing Accounting Estimates and related Disclosures*

¹⁸ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

Part 1A—Engagement Quality Management

84. This Part address the engagement partner's and auditor's responsibilities from ISA 220 (Revised).
85. The requirements from the recently approved standard have been included to the extent that they are necessary in an audit of an LCE (in the view of the LCE Working Group and in coordination with Staff working on ISA 220 (Revised)), but further analysis may be needed to ensure that the new important concepts and matters that have been included in the recently approved standard (to make it more robust) are not omitted. The LCE Working Group also need to perform further analysis of all ethics related requirements (within this Part and other parts) to ensure that there is no duplication and all of the necessary requirements have been addressed.

LCE Reference Group Feedback

- One participant questioned how much had been included with regard to quality management and encouraged not have 'recency bias' in adding to the [draft] audit standard (both for this and other recent standards).
- There was encouragement by one participant to have more on relevant ethical requirements in this and other relevant sections, e.g., acceptance / continuance (as essential material) – noting also that it would be helpful to have all in one place.

Part 2—Audit Evidence

86. Part 2 sets out the requirements for the procedures to gather audit evidence, including descriptions and requirements for analytical procedures, procedures with respect to external confirmations and sampling (where they apply generally). It also sets out the overarching documentation and communication requirements (with the intention that within each Part, anything specific to that Part with regard to documentation and communication are included as "specific requirements").
87. In developing the [draft] audit standard, the LCE Working Group considered whether "those charged with governance" is needed in light of the simpler circumstances of an LCE. However, it was highlighted that there may be some LCE's, such as a smaller, less complex charity, that would still have independent governance arrangements, and therefore the separation between management and those charged with governance has been maintained. The LCE Working group will further consider whether more can be done to focus on the core requirements in relation to those charged with governance, a point also raised by the LCE Reference Group.
88. For now, the LCE Working Group is approaching documentation in the same way that the ISAs approach documentation – i.e., overarching principles that apply to documentation throughout the audit and then specific requirements within each ISA (or Part of the [draft] audit standard) as required. However, as the [draft] audit standard is developed further consideration will be given to whether more can be done with regard to documentation as it is recognized that this is one of the biggest challenges in audits of LCEs.¹⁹

¹⁹ Part of the work of the CUSP Working Group is also to consider what more can be done to address issues and challenges related to documentation. The LCE Working Group will continue to coordinate with the CUSP Working Group on this.

89. Relevant sections with respect to fraud, and laws and regulations, have been included in this Part, along with related essential material explaining further the respective responsibilities of the auditor and management and those charged with governance with respect to fraud, and laws and regulations that apply to the audit more broadly.

Part 3—Acceptance or Continuance of Engagements and Initial Engagements

90. In this Part, the LCE Working Group has reflected on how the specific requirements for establishing the preconditions for an audit and how the matters with respect to the terms of the engagement included in the engagement letter could be presented. On balance it has been agreed that instead of presenting as individual requirements what is to be included in the engagement letter, to present these as specific documentation requirements. In addition, it has been agreed that an example engagement letter would be included in an Appendix to the [draft] audit standard to assist with the implementation of the standard.
91. In following the flow of the audit, the LCE Working Group had the view that it was appropriate to include the work performed with regard to initial engagements at the same stage as the acceptance or continuance of engagements.

Part 4—Planning

92. This Part is intended to incorporate the activities that would be undertaken at the planning stage of the audit. This includes the engagement team discussion (including the fraud aspects of that discussion).
93. The LCE Working Group included the engagement team discussion in this Part to better follow the flow of the audit engagement. The working group also considered that there are other 'operations' type matters that are dealt with as part of the engagement team discussion, and in the interests of making the standard more usable has added some of these matters as "essential" material.
94. Also, with the objective of making the standard more usable, the LCE Working Group has not distinguished between the 'audit strategy' and the 'audit plan.' However, the relevant outcomes of what the auditor would need to do (i.e., establish and plan the scope, timing and direction) are still incorporated.
95. This section also includes specific requirements for communication and documentation relating to planning activities.

Part 5—Risk Identification and Assessment

96. Part 5 of the [draft] audit standard addresses the auditor's understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control. This understanding broadly covers the requirements within ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*.
97. Similar to the ISAs, the [draft] audit standard is a risk-based approach. This means that the risk identification and assessment section is key to obtaining reasonable assurance. Although the core requirements from ISA 315 (Revised 2019) have been addressed in the [draft] audit standard, some of the matters that would more likely apply in circumstances where an entity is more complex have not been included in the [draft] audit standard. For example:

- Some of the specific matters within the understanding of the control components required to be understood (e.g., aspects of the control environment) have not been included because they would likely not exist in an LCE environment.
 - The individual evaluations required as part of obtaining an understanding of each of the components of internal control have not been individually required, but are addressed more collectively at a level that is more proportionate to the circumstances that are most likely to be encountered in the case of an LCE.
98. Participants in the LCE Reference Group noted a confusion in the terminology used in the standard with regard to “risk assessment procedures.” They had the view that by calling the types of procedures in the section on “risk assessment procedures” this seemed circular because the next section was the “understanding” required which is needed to be able to identify and assess risks of material misstatement. Accordingly, where the [draft] audit standard references to the ‘type’ of procedures this has been changed from “risk assessment procedures” to “procedures to identify and assess risks of material misstatement.” This has been done to assist with understandability of the standard for all.
99. ISA 315 (Revised 2019) was significantly enhanced for the auditor’s considerations with regard to information technology (IT), and some of these enhancements (as appropriate) have been included in the [draft] audit standard. However, the LCE Working Group recognizes further consideration is needed with regard to the impact of IT on what is envisioned to be captured by the [draft] audit standard, in particular to focus on systems where the auditor can audit ‘around’ the system rather than through the system (as may be the case in many audits of LCEs).
100. The LCE Working Group has also agreed to not include the stand-back that was added to ISA 315 (Revised 2019) because risk assessment in the entities for which the [draft] audit standard will be used are less complex, and the risk assessment is therefore likely to be more simplified and straightforward, which may reduce the benefits of the stand-back in comparison to the effort needed.
101. The LCE Working Group had the view that the inclusion of some of the helpful application material paragraphs in ISA 315 (Revised 2019) explaining “why” certain procedures are required would also be beneficial.
102. The [draft] audit standard broadly incorporates the requirements for the identification and assessment of the risks of material misstatement, including the new concepts introduced in ISA 315 (Revised 2019) such as spectrum of risk, inherent risk factors, relevant assertions and significant classes of transactions, account balances and disclosures. The LCE Working Group has the view that these concepts assist the auditor in appropriately identifying and assessing the risks of material misstatement, and therefore should be retained. The concept of significant risk has also been retained, consistent with ISA 315 (Revised 2019). By retaining all of these concepts the robustness of the risk identification and assessment introduced in ISA 315 (Revised 2019) is maintained.
103. Requirements from other standards that explain how to apply ISA 315 (Revised 2019) in specific circumstances have also been included as appropriate, including:
- Fraud (ISA 240).²⁰

²⁰ ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

- Laws and regulations (ISA 250 (Revised)).²¹
- Accounting estimates (ISA 540 (Revised)).
- Related parties (ISA 550).²²
- An entity using a service organization (ISA 402).²³

104. A new section has been added collating all of the various specific “inquiries” of management throughout the various standards when identifying and assessing risks of material misstatement, to enable an easier understanding of the specific inquiries that are needed because they are all in one place within the standard.

LCE Reference Group Feedback

- Supportive of how the various standards have been recognized in this Part. In particular, participants highlighted that paragraphs where requirements from various ISAs had been grouped together would be helpful when applying the standard.
- Encouraged further consideration about the auditor’s consideration of fraud and how it was addressed in this Part – in light of changes in environment and the need for a more focus on fraud by auditors of LCEs.

Part 6—Responding to Assessed Risks of Material Misstatement

105. Part 6 of the [draft] audit standard addresses the requirements for designing and implementing overall responses to assessed risks of material misstatement at the financial statement level, and the appropriate responses to the assessed risks of material misstatement at the assertion level (i.e., further procedures to be performed). This includes the broader responses as set out in ISA 330, *The Auditor’s Responses to Assessed Risks*.
106. This Part also describes what “further procedures” are—i.e., substantive procedures (tests of detail and substantive analytical procedures) and tests of controls (as needed), with a relevant description of each in this Part.
107. Many topic specific ISAs that contain requirements related to “responding to assessed risks of material misstatement” are also contained in this Part. To help focus on these areas the LCE Working Group has layered these under separate headings as “specific focus areas.” These specific focus areas include related parties, audit procedures responsive to risks of management override of controls (i.e., ISA 240 requirements), accounting estimates, inventory, litigation and claims, audit procedures when non-compliance with laws and regulations is identified or suspected, and deficiencies in the system of internal control. To the extent they are applicable, procedures with

²¹ ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

²² ISA 550 (Revised), *Related Parties*

²³ ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

respect to group audits, using the work of an expert and using the services of a service organization are also included in this section.²⁴

108. With regard to accounting estimates, the LCE Working Group has incorporated the three alternative approaches to responding to risks of material misstatement for accounting estimates (as set out in paragraph 18 of ISA 540 (Revised)). The LCE Working Group is of the view that it is likely, due to the timing of LCE audits, that there will be a focus on evidence available relating to the period after the balance sheet date up to the date of the auditor's report. Taking that into account, and that the accounting estimates envisioned for audits of LCEs would likely be at the lower end of the spectrum of inherent risk, the requirements around complex models and other related matters have not been included (this may still need to be further considered and described in the [draft] audit standard).
109. Part 6 also covers specific documentation or communications requirements related to the matters addressed within this Part.

LCE Reference Group Feedback

- Support was expressed for the 'grouping' of relevant requirements related to a topic as "specific focus area."
- It was noted that more on sampling would be helpful within the standard as this was an area where more guidance is needed in an audit of an LCE.
- It was questioned whether the more overarching requirements related to analytical procedures, sampling and external confirmations currently presented in Part 2 should rather be presented in Part 6 as this is where those concepts would likely be most relevant.
- It was noted that any considerations about management's expert should also be included in this Part.

Part 7—Concluding

110. The LCE Working Group has split "concluding" and "forming an opinion and reporting" to make clear what conclusions and evaluations are required at the back end of an audit engagement.
111. Accordingly, Part 7 of the [draft] audit standard sets out the requirements for the auditor in relation to evaluations towards the end of the audit as part of the completion stage of the audit, for example, the evaluation of uncorrected misstatements, or when there is a need to conclude. This Part also covers the auditor's procedures needed to be able to report, such as related to subsequent events, other concluding activities such as obtaining written representations and performing concluding analytical procedures. However, forming an opinion and reporting, as related components, have been kept together and are presented in Part 8 (see below).

²⁴ As previously explained, the LCE Working Group is still deliberating the content within the [Draft] Separate Standard with respect to group audits, using the work of experts and the auditor's considerations relating to an entity using a service organization, and therefore further changes will likely be included in the full version of the [Draft] Separate Standard as a result of those deliberations.

112. Where there have been requirements in other standards that are broader topic-specific standards, which contain requirements relating to concluding activities, this has also been included in Part 7. This includes requirements, as appropriate, in relation to:
- Fraud (ISA 240).
 - Responses to Assessed Risks (ISA 330).
 - Accounting estimates (ISA 540 (Revised)).
 - Related parties (ISA 550).
 - Going concern (ISA 570 (Revised)).²⁵
113. As has been done throughout the [draft] audit standard, Part 7 also includes specific documentation and communication requirements related to evaluation and concluding activities.
114. This Part includes the requirements of ISA 200²⁶ relevant to the auditor's evaluation whether the overall objective of the auditor has been achieved if an objective of a particular Part cannot be achieved, and its effect on the auditor's opinion.

Part 8—Forming an Opinion and Reporting

115. Part 8 of the [draft] audit standard deals with forming an audit opinion on the financial statements and reporting through a written report of the auditor, the types of audit opinions formed based on the auditor's conclusions made and the content of the auditor's report.
116. This Part has been drafted in a straightforward manner, consolidating under a single subheading the core requirements that the auditor needs to consider when other paragraphs and modified opinions are necessary and indicating separately the content of the auditor's report when the opinion is modified (i.e. by distinguishing what should be reported in cases when a qualified, adverse or disclaimer of opinion is being provided). The table of modified opinions currently in the ISAs²⁷ has been included to help describe, in an easy way, the modifications that could arise.
117. In addition, the reporting requirements of ISA 570 (Revised), *Going Concern*, tailored to circumstances for audits of LCEs, have been incorporated in this Part.
118. The LCE Working Group deliberated whether this Part should be further expanded to include some of the core requirements of certain other ISAs from the 700-series which address auditor reporting, including:
- ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, given that in certain jurisdictions legal requirements are in place requiring the auditor to report on other information which apply also to LCEs; and

²⁵ ISA 570 (Revised), *Going Concern*

²⁶ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

²⁷ ISA 705 (Revised), paragraph A1

- ISA 710, *Comparative Information, Corresponding Figures and Comparative Financial Statements* considering that comparative information and corresponding figures also form part of the financial statements of LCEs.

Very limited requirements related to these standards have been included as the LCE Working Group had the view that they could still be applicable in an audit of an LCE, and it was therefore important to recognize that some procedures, albeit minimal, are required.

119. Consistent with the proposed applicability of the [draft] audit standard discussed in Section III of this paper, which excludes listed entities from the scope of the standard, the LCE Working Group discussed whether the core requirements of ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report* should not be included. Given that ISA 701 predominantly applies to listed companies or in cases when it is required by law or regulation, the LCE Working Group agreed to focus only on those core requirements appropriate to an audit of an LCE and agreed that none of the requirements in ISA 701 are included.
120. The LCE Working Group agreed that a sample auditor's report should be included as an Appendix to the [draft] audit standard to help auditors' visualize the format of the auditor's report and enhance the usability of the [draft] audit standard.

Other Outstanding Matters Within the [Draft] Audit Standard

121. In addition to the specific items set out in this Agenda Item as outstanding or subject to further consideration and deliberation by the LCE Working Group, the next version of the [draft] audit standard to be presented for discussion with the IAASB, will also include considerations in relation to automated tools and techniques and the public sector (as needed).
122. The LCE Working Group has briefly considered how to keep the standard updated once issued – i.e., whether to “collect” changes over a period of time and make changes only every X number of years, or keep the standard updated as the ISAs are revised and developed. In the view of the LCE Working Group, this will need further consideration in light of the applicability of the standard, as well as the standalone nature of the standard. Therefore, this matter will be considered at a later time but before the [draft] audit standard is finalized for public consultation.
123. LCE Reference Group participants highlighted the need for a different focus on fraud for audits of LCEs. The LCE Working Group have agreed to add an appendix with fraud risk factors for LCE's, but also intend to consider what more can be done in relation to fraud within the [draft] audit standard, while maintaining a balance in terms of what is in the current ISA 240 but also being mindful of the project underway to explore changes to ISA 240.
124. The focus of this first Board discussion on the [draft] audit standard is meant to be targeted at the structure and broader content. As previously noted within this Agenda Item, as the LCE Working Group continues to progress the standard there will be further consideration of the specific content and the way that it is drafted.

LCE Reference Group Feedback

- It was highlighted that it would be important to consider how the standard would be kept up to date as the ISAs are revised, and how this would impact the “effective date” of the standard.

Matters for Board Consideration

9. Notwithstanding the premise of scaling the requirements as appropriate to the nature and circumstances of the audit of a less complex entity, the Board is asked whether there are any standards that do not appear to be sufficiently addressed? In particular, in relation to:
 - (a) ISA 540 (Revised);
 - (b) ISA 220 (Revised); and
 - (c) Other standards.If so, what appears to have been omitted, or alternatively, what areas of the audit need to be enhanced in relation to the requirements of the standard?
10. Time permitting, the Board is asked for views on:
 - (a) The detailed content of each Part as set out in **Agenda Item 2-B** (this Board discussion is focussed on the content and matters contained within each Part, with less focus on the specific drafting – the drafting will be the focus of the next Board discussion on the [draft] audit standard).
 - (b) The essential material that has been provided within each Part, including whether there are any areas where essential material would be helpful.

Appendix 1

Working Group Members and Activities

Working Group Members

1. The LCE Working Group consists of the following members:
 - Kai Morten Hagen, IAASB Member and Task Force Chair and IFAC SMP Advisory Group Liaison
 - Julie Corden, IAASB Member
 - Chun Wee Chiew, IAASB Member
 - Vivienne Bauer, IAASB Technical Advisor
 - Brendan Murtagh, Past IAASB Member
 - Christopher Arnold, IFAC SMP Advisory Group Representative
 - Roger Simnett, IAASB Member (Correspondent Member)
2. Information about the project can be found [here](#).

Working Group Activities Since the June 2020 IAASB Meeting (Virtual)

3. The LCE Working Group held seven virtual meetings. Owing to the nature of the activities being undertaken, substantial work was also progressed via electronic circulation of materials between members of the working group and IAASB staff.

Further Outreach Activities

4. The project proposal will be presented to the IAASB Consultative Advisory Group (CAG) at the beginning of December 2020. The Working Group Chair will provide an oral update to the Board of these discussions.

Appendix 2

June 2020 IAASB Minutes

Prof. Simnett, Chair of the LCE Working Group, presented the LCE Working Group's recommendations for developing a separate standard for LCEs on the basis of the overarching principles included in **Agenda Item 4**.

The Board broadly supported that the LCE Working Group commence development of the [draft] audit standard for audits of LCEs and prepare a project proposal for discussion at the December 2020 IAASB meeting. Notwithstanding the general support for moving forward, this was subject to further consideration about some of the overarching principles for the development of the [draft] audit standard (as set out below).

When asked for a view on whether the LCE Working Group should move forward to develop a draft of the [draft] audit standard for Board discussion, the majority of the Board supported this progression. Two Board members expressed the view that the IAASB should not progress with the development of a separate standard on the basis of the matters set out in **Agenda Item 4** (for different reasons).

The following sets out the more substantive comments from the Board on the matters for discussion.

OVERARCHING PRINCIPLES FOR DEVELOPING THE SEPARATE STANDARD FOR AUDITS OF LCEs

The Board generally agreed with the overarching principles for developing the separate standard for audits of LCEs, subject to the exceptions noted below. The Board encouraged the LCE Working Group to further consider:

- How the separate standard for audits of LCEs could be developed as a standalone, self-contained standard, with inclusion of the necessary definitions to facilitate an understanding of key terms and concepts. In addition, in relation to a standalone standard, the LCE Working Group was encouraged not to develop a standard for use by auditors who understand and use the International Standards on Auditing (ISAs) only, as this would limit the use of the standalone standard over time;
- Clarifying the interactions between the separate standard for audits of LCEs and the ISAs, including the linkages back to the ISAs. Some Board members expressed a preference for the separate standard not to revert back to ISAs (either requirements or relevant application material);
- How proportionality between the requirements in the ISAs and what was required by the separate standard for audits of LCEs had been considered; and
- The need for materials to help apply the separate standard when it has been developed, either within the standard or outside as support materials.

In respect of the overarching principles for developing the separate standard for audits of LCEs, the Board asked the LCE Working Group to further consider:

- The need to align the objectives in the separate standard for audits of LCEs with the ISAs;
- How the auditor's responsibilities relating to fraud in an audit of financial statements can be emphasized as appropriate in the separate standard for audits of LCEs;
- To clarify what is meant by 'clear and consistent documentation requirements' that are relevant and appropriate to an audit of an LCE; and

- To clarify how the separate standard for LCEs would be updated as amendments to the ISAs are made.

DESCRIPTION OF LCEs

In respect of the description of LCEs, the Board encouraged the LCE Working Group to develop a more prescriptive description of an LCE, so that it is clear which audits are in the scope of the new standard on audits of LCEs. The LCE Working Group was also encouraged to coordinate closely with the International Ethics Board for Accountants (IESBA) on the definition of Listed Entity and Public Interest Entity as the IESBA progressed its project in this area, and to further consider how the outcomes of this project may impact the description of an LCE.

PIOB OBSERVER REMARKS

Ms. Stothers highlighted the challenges for the Board to be responsive to the public interest on this initiative in a timely manner.

IAASB CAG CHAIR'S REMARKS

Mr. Dalkin noted that the IAASB Audits of LCEs project was discussed at the March 2020 IAASB CAG meeting. He noted that IAASB CAG Representatives' supported an approach where the principles for developing the separate standard be outlined at the outset. Mr. Dalkin emphasized the importance of considering the auditor's responsibilities relating to fraud in the development of the separate standard for audits of LCEs. Mr. Dalkin also emphasized that while contemplating the applicability of the separate standard for audits of LCEs, the broad range of public sector entities also need to be taken into consideration.

WAY FORWARD

The LCE Working Group will commence development of the separate standard for audits of LCEs on the basis of the overarching principles, amended as appropriate to address Board comments, and prepare a project proposal for the IAASB's discussions at the December 2020 IAASB meeting.

Appendix 3

LCE Working Group Outreach

1. Since June 2020, the LCE Working Group undertook the following outreach:
 - The LCE Working Group Chair and IAASB Staff received input from the International Federation of Accountants (IFAC) SMP Advisory Group (AG) through two focused discussions that took place on July 30th, 2020 and November 19th, 2020. The IFAC SMP AG noted appreciation for the opportunity to discuss the ongoing work on audits of LCEs and emphasized the importance of the LCE project. During these discussions specific feedback was obtained from SMP Advisory Group representatives on the targeted timing for development of the [draft] audit standard, the overarching principles for developing the [draft] audit standard, the use of the standard (i.e., its applicability), the overall structure of the [draft] audit standard and the initial draft.
 - On October 7th, 2020, the IAASB facilitated a roundtable among global experts to discuss unique aspects of fraud and going concern in audits of less complex entities. During the roundtable, IAASB Staff and the LCE Working Group Chair received valuable inputs with respect to how the nature of fraud perpetrated in LCEs is different from more complex entities (including identifying risk factors that may be unique to LCEs in the context of an audit of financial statements) and what factors or characteristics are unique to LCEs in considering an entity's ability to continue as a going concern. Feedback was also received on the requirements ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, and ISA 570 (Revised), *Going Concern*, that are particularly challenging to apply for LCEs and why, and how audit procedures performed to meet the requirements of ISA 240 and/or ISA 570 in audits of LCEs may be executed differently from audits of more complex entities.
 - On November 3rd, 2020, IAASB Staff and the LCE / CUSP Working Group Chairs updated National Standard Setters (NSS) on the progress to date with respect to the activities under the projects and received inputs from NSS participants on their views on the applicability of the [draft] audit standard.
 - The LCE Working Group Chair, and IAASB Staff attended a session at the Forum of Firms meeting that took place on October 6, 2020 and provided an update on the applicability and broad principles used for developing the separate standard.
2. A summary of the main points and key takeaways from these discussions is provided below.

IFAC SMP AG

Below is a summary of the main points raised during the SMP AG call that took place on June 30th, 2020 (this addressed the initial views on the development of the standard and broad principles to be used):²⁸

Targeted Timing

- The timeline for developing the [draft] audit standard is very important, in particular considering the time needed to implement standards, including translation processes. The importance of keeping to the timeline was emphasized.

²⁸ These were individual comments and not necessarily a consensus view (unless otherwise indicated).

- The need to rapidly progress the work under the LCE Workstream is well recognized. At the same time there is a need to progress the work for revising the ISAs so that scalability and proportionality concerns can also be addressed in the ISAs.

Overarching Principles for Developing the [Draft] Audit Standard

- Because the ISAs are very robust, there may be perceptions that the separate standard for audits of LCEs is not seen as the same quality compared to an audit under full ISAs (i.e., the risk of the perception that this would be ‘audit lite’).
- It was questioned how the separate standard for audits of LCEs would differ from the ISAs, i.e., how could it be distinguished. It was noted that the presented Example SME Standard had many similarities with the ISAs, and it is difficult to identify significant differences relative to the ISAs. It was also highlighted that there was a risk of not going far enough in differentiating the standards.
- Concern was expressed over the use of a risk-based approach. The Example SME Standard is based on a risk-based approach, the same as the ISAs, but such approach is difficult to apply in some LCE audits where there are no internal controls and/or the owner-manager is responsible for most processes.
- There is a further need for clarity on how auditors would transition from using the ISA to the separate standard and back.
- Further clarity is required to understand the interaction with the ISAs, for example in respect of matters not addressed in the separate standard for audits of LCEs or where guidance could be leveraged.
- It was highlighted that further consideration is needed with regard to the approach to fraud in an LCE environment, given the unique nature of how an owner-manager can override controls more easily in an LCE environment.
- Several participants noted that the concept of reasonable assurance is well supported, highlighting that this would be important in maintaining the same level of robustness and quality of audits as under the full ISAs.
- There was support for having similar core procedures, as this would help with illustrate the quality of the audit. However, concern was expressed that this may still require some unnecessary work.
- It was noted that the Example SME Standard is very clear, in terms of using simple words, sentences and this should improve its general usability.
- Participants questioned what other approaches were considered, other than a risk-based approach, including why these had been rejected. It was highlighted that if other approaches were not considered, this could be a “missed opportunity” to explore something that may work better.
- There is a need to manage the perception that an audit under the [draft] audit standard is not of a lesser quality. Further, it was highlighted that if some firms decided not to use the standard, this may create practical (cost) difficulties for auditors tendering for the same entity under full ISA and the separate standards for audits of LCEs.
- The need for supporting materials was expressed (i.e., need some reference examples on how to use the separate standard) – especially initially.

Applicability of the [Draft] Audit Standard

- The definition used to distinguish an LCE was considered essential. It was understood that there are differing situations worldwide, but having a clear, high-level definition would be important.
- Mixed views on excluding all public interest entities (PIEs) was expressed, with it being highlighted that some PIEs are not complex.
- It was noted that there are clear situations when an entity / audit is complex or not but then there are also many audits in the “middle” zone. Also complexity is a continuum and clarity will be needed on how to deal with these matters.
- Concern was expressed on the applicability because different jurisdictions may consider different approaches to adoption of the standard and this could create issues for group audits and international comparability.
- It was suggested that it may be practical to have the applicability of the separate standard for audits of LCEs in a guidance note outside of the standard itself to help jurisdictions make the decisions on applicability.
- It was questioned whether there would be quality management standards developed for LCEs (it was explained that this is not anticipated at this point in time).

Below is a summary of the main points raised during the SMP AG call that took place on November 19th, 2020 (this addressed the initial views on the use of the standard (i.e., its applicability), the overall structure of the [draft] audit standard and the initial draft:²²

Applicability of the [Draft] Audit Standard

- Further consideration needs to be given to the link between applicability of the [draft] audit standard and what is reported as the basis for the auditor's conclusion (including comments with regard to whether the standard is standalone or whether the ISAs could be referred to if necessary).
- Some of the ‘criteria’ with regard to indicators of complexity may not be clear, in particular in relation to the oversight responsibilities resting with one, or very few individuals, the entity's governance structure being multifaceted and many individuals in roles related to financial reporting, as well as the use of specific examples such as e-commerce.
- A concern was raised about the consistency in application due the judgement that is required. For example, when the spectrum of complexity is viewed differently depending on the individual, or how to manage an audit when the nature and circumstances change each year.
- A perception could be that applying the [draft] audit standard reduces the cost, which may have unintended consequences. For example, there could be implications when a client has a different view to the practitioner.
- The IAASB were cautioned to not inadvertently scope out some entities unnecessarily because of the way the applicability is articulated. The importance of the IESBA project on the definition of listed entity and PIE was also highlighted.
- It is important to make clear that individual jurisdictions would need to make the decision whether to adopt, and if so, whether further restrictions on use of the standard is needed.

Other Comments about the [Draft] Audit Standard

- There was broad support of the direction, flow and structure – the IAASB was encouraged to continue to develop the [draft] audit standard with the aim of it being understandable and usable. One participant commented on the length and hoped that it continued to remain short.
- It was acknowledged that more needed to be done to focus on the drafting e.g. to use shorter sentences and improve clarity. It was emphasized that the basis of the opinion needed to be clear about what standard is being complied with and further consideration given to if/ how the [draft] audit standard is different to the ISAs.
- There was some concern about stakeholders perception of a reasonable assurance opinion under the [draft] audit standard, compared to the ISAs, and the implications for the auditor.
- It was noted that documentation requirements may be needed to support why practitioners classify the audit of an LCE as less complex, in particular for peer review purposes.
- Further consideration of situations where there could be a need to move from the [draft] audit standard back to the ISAs if the practitioner did find some element of complexity during the audit was encouraged. This could be more of an issue for initial audit engagements.

Fraud and Going Concern (LCE) Roundtable

The following provides a summary of key takeaways from IAASB facilitated roundtable that took place on 7 October 2020.

Nature of Fraud Perpetrated in LCEs

- While both types of fraud are committed in LCEs, fraud related to misappropriation of assets is more commonly seen in practice than financial reporting fraud.
- Certain fraud risk factors may be more prevalent in LCEs because pressures, opportunities, and rationalizations are different as compared to more complex entities.
- The following points were discussed related to each component of the fraud triangle:
 - *Opportunities*: LCEs often have less anti-fraud controls (e.g. whistleblower hotlines, internal audit function, etc.). They also typically have less employees and therefore less segregation of duties. As such, there may be higher opportunity to commit fraud than in more complex *entities*.
 - *Pressures/Incentives*: Owner-managers may have different pressures than management of more complex entities. For example, in LCEs, owner-managers may feel pressure to pay less tax and therefore understate revenue (as compared to more complex entities, where earnings may be tied to performance and therefore pressure is more often to overstate revenue). In other LCEs, there may be pressure to obtain financing from stakeholders by showing profitability and therefore there may be pressure to overstate revenue.
 - *Rationalization*: Owners of LCEs often take a lot of pride in their companies and in their employees as they may have started the company from the ground up. If the company is going through a difficult time, they may rationalize the perpetration of fraud to help the company survive.

- Similarly, certain fraud risk factors may be less prevalent in LCEs as compared to more complex entities. For example, journal entries posted outside normal business hours or long hours worked by employees may be normal operating practices for certain LCEs.
- Frauds may be perpetrated by trusted employees. Often the owner-manager of an LCE may place a lot of reliance on the bookkeeper or company accountant. That individual may have multiple roles in the company, giving them the opportunity to commit fraud due to lack of segregation of duties.
- Fraud in LCEs may be concealed for years by exploiting the trust between the owner-manager and its employees.

Procedures Related to Fraud in Audits of LCEs

- Participants questioned whether the minimum requirements in ISA 240 are appropriate in all circumstances for LCEs. While there was a view that a minimum amount of procedures should be required to ensure proper focus on the area of fraud, the procedures currently required in the standard may not be as effective in all circumstances for LCEs. For example, in certain audits of LCEs, there are so few journal entries throughout the year that all journal entries have been audited through other audit procedures. In those circumstances, performing additional journal entry testing to fulfill the requirements of ISA 240 may not be the most effective way to respond to the risk of management override of controls.
- It may be effective to require that auditors of LCEs apply forensic interview skills when performing inquiries of management.
- It may be effective to use forensic specialists in audits of LCEs to help assess the risk of fraud and apply a forensic mindset in fraud brainstorming, but the benefit needs to be weighed against the increased cost.
- An auditor conducting an audit in accordance with ISAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, in practice, auditors spend most of their time on procedures to identify material misstatements caused from error. The responsibilities of the auditor may need to be more clearly emphasized.
- Unpredictability procedures can be difficult to apply in audits of LCEs. The notion of unpredictability is important in audits of all entities but can be difficult in audits of smaller entities where procedures are already performed in most or all areas of the financial statements. Additional guidance in this area may be useful.

Going Concern Considerations Unique to LCEs

- Often, managers of LCEs do not prepare any formal forecast or going concern assessment.
- There is often a lack of comparable information to assess reasonableness of assumptions used in going concern assessments.
- Often, LCEs operate with less formality and regularity than more complex entities. For example, money may be extracted from the business on an as-needed basis, and therefore difficult to predict timing and amounts from a cash flow perspective for purposes of assessing going concern.

- There are often key person dependencies where the business depends heavily on the skills of certain individuals. Consequently, a sudden health issue could bankrupt a company.

Procedures Related to Going Concern in Audits of LCEs

- The absence of formal forecasts or assessments related to going concern makes it difficult for the auditor to perform the procedures required by ISA 570 (Revised).
- Auditors often place reliance on the knowledge of the owner-manager and on management representations.
- Where the survival of the company depends on the owner-manager or a related party, it can be difficult to verify that they have the capacity and willingness to continue to fund the company in difficult times. Since auditors typically do not perform audits of the individuals or entities providing the funding (for example, the owner-manager), the ability of that individual or entity to continue to provide funding is difficult to audit. One participant suggested there be a requirement to assess the party's performance relative to past commitments.
- Participants suggested it may be useful to consider if there is a "middle ground" that can be disclosed in the auditor's report to explain particular circumstances without raising serious concerns as to the entity's ability to continue as a going concern. For example, if a not-for-profit entity is completely dependent on charitable contributions from a particular party and those contributions have always been made in past years, there may not be an issue with the not-for-profit entity, but the nature of their business is completely dependent on a third party.
- Auditors are required to assess management's going concern assessment which should cover at least twelve months from the date of the financial statements. However, auditor's reports of LCEs may not be signed until much later, sometimes 9-10 months past the date of the financial statements. Additional emphasis may be needed in ISA 570 (Revised) to require that auditors consider an extended period in situations where the auditor's report is issued much later than the balance sheet date.

NSS Meeting

The following provides a summary of the comments received at the NSS discussion that took place on 3 November 2020:

Applicability of the [Draft] Audit Standard

The focus of the NSS discussion was on the applicability of the separate standard:

- It was acknowledged that applicability of the standard is a very difficult matter to address but is also a critical matter with respect to the [draft] audit standard.
- From the description provided to NSS, it was hard to assess how some of the items listed relate to complexity (for example, it doesn't include consideration of significant management judgments and estimates).
- It was noted that providing a listing of specific industries (such as mining) may not be always reflective of the complexity associated with the entity and the audit.

- Many considerations of the present description still require significant judgment to be able to make the determination on whether the separate standard is appropriate to use, which presents a risk that the standard may be inappropriately used.
- More clarification is required on how jurisdictions can determine the use of the [draft] audit standard, because the current description only indicates that the standard can be used unless prohibited by law and regulation.
- Support was expressed for not including listed companies in the scope of the [draft] audit standard. However, mixed views were expressed whether to scope out public interest entities (PIEs).
- Participants called for IAASB to set out more clearly what the nature of the entity subject to the standard should be. This could be helpful in terms of scoping out certain standards that may be included or excluded from the [draft] audit standard.
- Questions were raised by participants if the project would extend also to developing a separate standard for LCEs with respect to quality management.
- Views were expressed that the auditor's opinion should clearly state that the audit was undertaken on the basis of the [draft] audit standard.

Forum of Firms (FoF)

The following represent individual comments from FoF participants and not a consensus view:

- In the applicability it may be easier to describe what is complex rather than what is less complex.
- It is important to allow jurisdictions to decide whether they adopt the new separate standard or not.
- It is important to understand what is trying to be achieved with the separate standard – in particular is the standard aimed at less complex entities or less complex audits.
- Is it practical to have a separate audit standard (runs the risk of creating a two-tier profession) rather should focus on other types of engagements for less complex entities.
- It would not be helpful if group audits are scoped out.
- Focus on the basis for opinion – in particular to make sure users understand what “they are getting.”
- Some concern expressed for the starting point for the development of the separate standard.
- Recognition of the many challenges in developing the separate standard – will be difficult to meet the needs and expectations for the separate standard.

Appendix 4

Draft CAG Minutes – September 2020

Audits of Less Complex Entities (LCEs) (Agenda Item E)

To *PROVIDE* Representatives' with an overview of the proposals to develop a separate standard for audits of Less Complex Entities (LCEs) and on the information-gathering activities with respect to the complexity, understandability, scalability and proportionality (CUSP) workstream; and to *OBTAIN* Representatives' views of the work being undertaken by the LCE and CUSP Working Groups.

Prof. Simnett, Chair of the CUSP Working Group and Mr. Hagen, Chair of the LCE Working Group introduced the topic, explaining the work within the two streams respectively.

PROPOSED DIRECTION FORWARD IN RELATION TO CUSP WORKSTREAM

Representatives commented as follows:

- Messrs. Thompson and Pavas and Ms. Robert supported the direction of the IAASB on the two workstreams. Ms. Manabat emphasized the importance of this work for the IAASB.
- Messrs. Hansen and Hirai inquired whether the CUSP workstream would clarify the differences and distinctions between how “proportionality” and “scalability” are referred to with respect to the IAASB standards. They explained that it would be helpful to provide further clarity concerning the meaning of the terminology applied as it was currently not clear what each workstream would address and there could be duplication of efforts if these terms were not clearly understood. Prof. Simnett explained that as part of the CUSP workstream the working group would further explore these terms and clarify as appropriate. He also noted that it is envisioned that the separate standard workstream would also address scalability and proportionality in the context of audits of LCEs.
- Mr. Cela noted that the work of both workstreams are interrelated, and therefore it is very important that both workstreams progress in parallel. Prof. Simnett agreed and noted that as the work is progressing under both workstreams, it is important that information and learning beneficial for both workstreams is shared between the CUSP and LCE Working Groups. He also noted that both workstreams are being supported by the same IAASB staff to enhance this coordination.
- Ms. Zietsman and Mr. De Tullio recognized the importance of the work being performed in both workstreams. They highlighted that the CUSP workstream would impact all the ISAs, and that the work envisioned under this workstream is not specific to less complex entities only. Ms. Zietsman noted that some of the IAASB Clarity conventions were not used consistently, and added that there had been more complexity introduced to the standards in the more recent IAASB projects (such as ISA 315 (Revised 2019)²⁹ and ISA 540 (Revised)³⁰). Mr. Pavas agreed that the complexity of the ISAs had increased and welcomed the IAASB's efforts in this regard. Ms. Zietsman also emphasized the need to develop a strategy about how any changes to the standards would be applied once the drafting principles and guidelines have been finalized in order to prevent unintended changes to the ISAs. Prof. Simnett explained that the decision on how the standards

²⁹ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

³⁰ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

will be revised will be considered further by the IAASB once the drafting conventions and guidelines have been finalized, but noted that there is a preference for revisions to be made on a prospective basis, i.e., as standards are opened up for revisions on a going forward basis.

- Mr. Norberg questioned if it would be possible to evaluate how the two workstreams would run in parallel considering their different development approaches, i.e., the CUSP workstream being at an information gathering stage (and seemed to be more of a desktop process), while the development of the separate standard for audits of LCEs standard-setting and including more extensive outreach activities. Mr. Seidenstein noted that the work of the CUSP Working Group would start to feed into current projects of the IAASB, as standards are opened up and revised the principles will start to be applied. He further explained that the projects were different in nature, and that the development of the separate standard necessitated a separate reference group to help the development of a usable and appropriate standard in the very short timeline.
- Mr. Dalkin highlighted that the ISAs have increased in volume over the recent past and encouraged the CUSP workstream to also consider the root causes of why this had occurred. Prof. Simnett acknowledged the importance for understanding the root causes, and noted that a detailed review was performed when the responses to the Discussion Paper³¹ were analyzed.

PROPOSED DIRECTION FORWARD IN RELATION TO AUDITS OF LCEs

Representatives commented as follows:

- Mr. Munter and Ms. Wei emphasized that while developing the separate standard for audits of LCEs it is important to achieve the objective of a high-quality audit, regardless of the size of the entity and its complexity. Ms. Wei encouraged the LCE Working Group to consider how the audit opinions of entities audited under the separate standard would impact the future potential access of LCEs to the capital market given that investors expect the same high-quality financial information and audits from companies of all sizes and complexities. Prof. Simnett and Mr. Hagen noted that the development principles of the separate standard for audits of LCEs underline that the standard will be developed with the same level of assurance as the ISAs (i.e., reasonable assurance) and that under both approaches the quality of the audit will not be compromised.
- Messrs. Yurdakul, Yoshii, Munter and Hansen and Ms. Landell-Mills and Singh highlighted that in previous discussions representatives' had expressed concerns that a separate standard for audits of LCEs could result in lower quality audits being performed (because of weaker standards), and a "two-tier" system of audits. It was explained that having one set of global auditing standards would prevent such risk, notwithstanding the pressure from local and regional standard setters who are seeking solutions for audits of LCEs. Mr. Hansen and Ms. Landell-Mills cautioned that public interest entities (PIEs) should be scoped out in addition to listed entities. Mr. Hagen noted that the IAASB would carefully consider what needed to be done to not create a two-tier system, or the perception that an audit using the separate standard was of a different quality. He explained that the principles for the development of the separate standard were based on the ISAs, and in that way it was envisioned that a high-quality audit would be performed using the separate standard.

³¹ Discussion Paper (DP), Audits of Less Complex Entities (LCEs): *Exploring Possible Options to Address the Challenges in Applying the ISAs*

- Mr. Ruthman emphasized the importance of the applicability of the separate standard. He further explained that further consideration would need to be given to when entities beyond listed entities are 'scoped out' and how they may be impacted if unable to use the standard, for example, if entities using public funding are scoped out this may inadvertently potentially scope out some public sector entities when they may be less complex by nature.
- Ms. Mubarak supported the development of a separate standard for audits of LCEs. She cautioned that simplification may not be as easy as it may first appear for some topics (such as procedures to verify the estimates used in financial statements or with respect of audits of group financial statements). She highlighted that Sri Lanka has developed a separate standard for auditing very small and economically non-significant entities, and that auditors have the option to use this standard provided the applicability criteria are met.
- Mr. Sobel supported the use of a decision tree (as presented in the IAASB June 2020 issues paper) to assess applicability, but noted that it may be necessary to provide further clarity as to the degree of professional judgement that would be needed when making such determination. Mr. Hagen explained that the LCE Working Group's thinking had further evolved since the IAASB June 2020 paper and that further changes to the applicability of the separate standard (and flowchart) are currently being developed. He noted that the LCE Working group was focused on the complexity of the audit and had heard from other outreach that the applicability needed to be clear, and less judgmental (or more prescriptive).
- Ms. Robert noted general support for the principles that had been set out for the development of the separate standard. She also encouraged further outreach with legislators and regulations in various jurisdictions, as they would impact the decision to apply the separate standard in those jurisdictions, and it would be helpful to connect with these stakeholders as early as possible to obtain their support. She also highlighted outreach with the LCE Reference Group as a good source of practical and technical knowledge, noting that the group was mainly composed of practitioners.
- Mr. Cela supported the development of the separate standard, and indicated that such standard will be applicable for compulsory and contractual audits of LCEs, and would help those jurisdictions that are seeking and developing solutions for audits of LCEs.
- Mr. Rees expressed support for development of the separate standard. He highlighted that the International Accounting Standard Board (IASB) is currently consulting on the future of its IFRS for SME Standard.³² He noted that some of the questions that the IASB is thinking about could be useful context for the development of the IAASB's separate standard for audits of LCEs, such as whether the IFRS for SME Standard should continue to align with full IFRS or could the requirements be developed more independently from the full IFRS. He highlighted the importance of the applicability to determine who can use the separate standard as that will affect its content and how the standard is drafted.
- Mr. Dalkin noted that it would also be useful to consider if there would be any unintended consequences when developing the separate standard for audits of LCEs, including the determination of its applicability.

³² International Financial Reporting Standard for Small and Medium-sized Entities

PIOB COMMENTS

Mr. Kashiwagi highlighted the concerns previously raised with respect to the allocation of resources to these projects and the length of time for the work envisioned under both workstreams. He emphasized the need for the workstreams to progress in shorter timelines, considering the urgent need for these projects. Mr. Seidenstein explained that work on both projects has been progressing very quickly and it is envisioned that an Exposure Draft for the separate standard for audits of LCEs will be published mid 2021, at the same time it is envisioned that the drafting principles and guidelines will also be published for public consultation.

WAY FORWARD

Prof. Simnett and Mr. Hagen thanked the Representatives for their feedback. The LCE Working Group is working towards presenting a project proposal, and a first draft of the separate standard, to the IAASB for discussion in December 2020. Discussions with the Board on the work of the CUSP workstream is planned for January 2021, where proposals for the drafting principles and guidelines will be discussed.

Appendix 5

Objectives

The table below provides the objectives of the [draft] audit standard and the related objective(s) paragraphs of ISAs. As previously noted the objectives as presented in the [draft] audit standard in Agenda Item 2-B are overarching objectives and may not address every topic within that Part.

[draft] audit standard – Objectives	ISA Paragraphs
<p>Part 1: Fundamental Concepts and General Principles</p> <p>Paragraph 1.2.1</p> <p>The overall objectives of the auditor when conducting an audit of financial statements using this [draft] audit standard are to:</p> <ul style="list-style-type: none"> (a) Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, to enable the auditor to express an opinion on whether the financial statements are prepared, in all material respects in accordance with an applicable financial reporting framework; and (b) Report on the financial statements, and communicate as required by this [draft] audit standard, in accordance with the auditor's findings. 	<ul style="list-style-type: none"> • ISA 200,³³ Paragraph 11
<p>Part 1A: Engagement Quality Management</p> <p>Paragraph 1A.1.1</p> <p>The objectives of the auditor are to manage audit quality at the engagement level such that:</p> <ul style="list-style-type: none"> (a) The auditor has conducted the audit in accordance with professional standards and the applicable legal and regulatory requirements; and (b) The auditor's report is appropriate in the circumstances. 	<ul style="list-style-type: none"> • ISA 220 (Revised),³⁴ Paragraph 10
<p>Part 2: Audit Evidence</p> <p>Paragraph 2.1.1</p> <p>The objectives of the auditor are to:</p> <ul style="list-style-type: none"> (a) Obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion; (b) Prepare documentation that provides a sufficient and appropriate record of the basis for the auditor's report and provides evidence that the audit was planned and 	<ul style="list-style-type: none"> • ISA 500,³⁵ Paragraph 4 • ISA 230,³⁶ Paragraph 5

³³ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

³⁴ ISA 220 (Revised), *Quality Control for an Audit of Financial Statements*

³⁵ ISA 500, *Audit Evidence*

³⁶ ISA 230, *Audit Documentation*

[draft] audit standard – Objectives	ISA Paragraphs
<p>performed in accordance with this [draft] audit standard and applicable laws and regulations; and</p> <p>(c) Communicate clearly about matters related to the audit, obtain information relevant to the audit, provide timely observations that are relevant to management (or those charged with governance) and, where appropriate, promote effective two-way communication between the auditor and those charged with governance.</p>	<ul style="list-style-type: none"> ISA 260 (Revised),³⁷ Paragraph 9
<p>Part 3: Acceptance or Continuance of an Audit Engagement and Initial Engagements</p> <p>Paragraph 3.1.1</p> <p>The objectives of the auditor are to:</p> <p>(a) To accept or continue an audit engagement only when the basis upon which it is to be performed has been agreed, through:</p> <p>(i) Establishing whether the preconditions for an audit are present; and</p> <p>(ii) Confirming that there is a common understanding between the auditor and management and, where appropriate those charged with governance, of the terms of the audit engagement.</p> <p>(b) For initial engagements, to obtain sufficient appropriate audit evidence about whether:</p> <p>(i) Opening balances contain misstatements that materially affect the current period's financial statements, and</p> <p>(ii) The entity's accounting policies are appropriately reflected in the opening balances.</p>	<ul style="list-style-type: none"> ISA 210,³⁸ Paragraph 3 ISA 510,³⁹ Paragraph 3
<p>Part 4: Planning</p> <p>Paragraph 4.1.1</p> <p>The objectives of the auditor are to:</p> <p>(a) Plan the audit so that it will be performed in an effective manner; and</p> <p>(b) Determine materiality so that the concept of materiality can be used appropriately in planning and performing the audit.</p>	<ul style="list-style-type: none"> ISA 300,⁴⁰ Paragraph 4 ISA 320,⁴¹ Paragraph 8

³⁷ ISA 260 (Revised), *Communication with Those Charged with Governance*

³⁸ ISA 210, *Agreeing the Terms of Audit Engagements*

³⁹ ISA 510, *Initial Audit Engagements—Opening Balances*

⁴⁰ ISA 300, *Planning an Audit of Financial Statements*

⁴¹ ISA 320, *Materiality in Planning and Performing an Audit*

[draft] audit standard – Objectives	ISA Paragraphs
<p>Part 5: Risk Identification and Assessment</p> <p>Paragraph 5.1.1</p> <p>The objectives of the auditor are to:</p> <ul style="list-style-type: none"> (a) Understand the entity and its environment, the applicable financial reporting framework and the entity's system of internal control to enable the auditor to identify and assess the risks of material misstatement; and (b) Identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement. 	<ul style="list-style-type: none"> • ISA 240,⁴² Paragraph 11 (part) • ISA 315 (Revised 2019),⁴³ Paragraph 11
<p>Part 6: Responding to Assessed Risks of Material Misstatement</p> <p>Paragraph 6.1.1</p> <p>The objectives of the auditor are to:</p> <ul style="list-style-type: none"> (a) Obtain sufficient and appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks; (b) Respond, as appropriate, to risks of material misstatement arising from fraud; (c) Obtain sufficient appropriate audit evidence regarding management's use of the going concern assumption and related disclosures; and (d) To perform specified procedures to identify instances of non-compliance with laws and regulations and respond accordingly. 	<ul style="list-style-type: none"> • ISA 330,⁴⁴ Paragraph 3 • ISA 240, Paragraph 11 (part) • ISA 570 (Revised),⁴⁵ Paragraph 9 (part) • ISA 250 (Revised),⁴⁶ Paragraph 11
<p>Part 7: Concluding</p> <p>Paragraph 7.1.1</p> <p>The objectives of the auditor are to:</p> <ul style="list-style-type: none"> (a) Evaluate the effect of identified misstatements on the audit and the effect of any uncorrected misstatements, if any, on the financial statements; 	<ul style="list-style-type: none"> • ISA 450,⁴⁷ Paragraph 3 • ISA 570 (Revised), Paragraph 9 (part)

⁴² ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

⁴³ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

⁴⁴ ISA 330, *The Auditor's Responses to Assessed Risks*

⁴⁵ ISA 570 (Revised), *Going Concern*

⁴⁶ ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

⁴⁷ ISA 450, *Evaluation of Misstatements Identified During the Audit*

[draft] audit standard – Objectives	ISA Paragraphs
<p>(b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and</p> <p>(c) Conclude on whether sufficient appropriate audit evidence has been obtained on which to base the auditor's opinion.</p>	
<p>Part 8: Forming an Opinion and Reporting</p> <p>Paragraph 8.1.1</p> <p>The objectives of the auditor are to:</p> <p>(a) Form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained and to express clearly that opinion through a written report: and</p> <p>(b) Consider whether there is a material inconsistency between the other information, if any, and the financial statements as well as the auditor's knowledge obtained in the audit and respond appropriately.</p>	<ul style="list-style-type: none"> • ISA 700 (Revised),⁴⁸ Paragraph 6 • ISA 720 (Revised),⁴⁹ Paragraph 11

⁴⁸ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

⁴⁹ ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

Appendix 6

High-Level Mapping of the ISAs to the [draft] audit standard

