

Meeting: IAASB Consultative Advisory Group (CAG)
Meeting Location: Virtual Meeting
Meeting Date: March 8, 2021

Agenda Item D

Audits of Less Complex Entities – Cover

Objective of Agenda Item

1. The objective of this agenda item is to obtain Representatives views on the draft International Standard on Auditing for Less Complex Entities (ISA for LCE).

Project Status

2. The project proposal was approved by the IAASB in December 2020. The Board also discussed the initial draft of the ISA for LCE (the December 2020 IAASB papers have been sent as reference papers for this meeting, which explains the development of the draft to that point).
3. The draft ISA for LCE has been progressed in the current period, with changes made:
 - (a) To address IAASB comments from the December 2020 meeting.
 - (b) To further revise the standard to make it appropriate to the circumstances of an audit of a less complex entity.
 - (c) To further explore whether more can be done in the areas that are found most challenging in audits of LCEs (such as identification and assessment of risks of material misstatement), while maintaining the robustness of the ISA requirements (and therefore ensuring that reasonable assurance is still attained).
4. **Agenda Item 4** for the IAASB meeting sets out a description of the significant changes made since the December 2020 draft, and **Agenda Item 4-A** is the draft ISA for LCE that is to be used for discussion. These papers are presented to the IAASB CAG as:
 - (a) **Agenda Item D.2 (For Reference)** – IAASB Issues Paper March 2021
 - (b) **Agenda Item D.4 (For Reference)** – IAASB Draft ISA for LCE March 2021
5. **Appendix A** to this paper provides a history of previous discussions with the IAASB CAG and IAASB on this topic, including links to the relevant IAASB CAG documentation.

Feedback – What Did We Hear Last Time We Met?

6. Extracts from the draft minutes of the September 2020 and the December 2020 IAASB CAG meetings, as well as an indication of how the LCE Working Group or IAASB has responded to the Representatives' comments, are included in the table below.

Representatives' Comments	Working Group / IAASB Response
PROPOSED DIRECTION FORWARD IN RELATION TO CUSP WORKSTREAM	
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.	Support noted.
Messrs. Hansen and Hirai inquired whether the Complexity, Understandability, Scalability and proportionality (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.
Dr. 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.
<p>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.</p> <p>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))¹</p>	<p>Points noted.</p> <p>Prof. Simnett explained that the decision on how the standards 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.</p>

¹ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

Representatives' Comments	Working Group / IAASB Response
<p>and ISA 540 (Revised)²). Mr. Pavas agreed that the complexity of the ISAs had increased and welcomed the IAASB's efforts in this regard.</p> <p>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.</p>	
<p>Dr. 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.</p>	<p>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.</p>
<p>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.</p>	<p>Point noted.</p> <p>Prof. Simnett acknowledged the importance for understanding the root causes, and noted that a detailed review was performed when the responses to the Discussion Paper³ were analyzed.</p>

² ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

³ Discussion Paper (DP), *Audits of Less Complex Entities (LCEs): Exploring Possible Options to Address the Challenges in Applying the ISAs*

Representatives' Comments	Working Group / IAASB Response
PROPOSED DIRECTION FORWARD IN RELATION TO AUDITS OF LCEs	
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.	<p>Point noted.</p> <p>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.</p>
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.	<p>Point noted.</p> <p>In developing the LCE standard further consideration will need to be given to transitioning from the LCE standard to full ISAs.</p>
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. 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.
Mr. Hansen and Ms. Landell-Mills cautioned that public interest entities (PIEs) should be scoped out in addition to listed entities.	<p>Point noted.</p> <p>The LCE Task Force continue to develop the appropriate applicability for the standard.</p>

Representatives' Comments	Working Group / IAASB Response
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.	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).
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.	Point noted.
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.	Support noted.
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	Point noted. The LCE Task Force continue to develop the appropriate applicability for the standard, including outreach activities as appropriate.

Representatives' Comments	Working Group / IAASB Response
composed of practitioners.	
Dr. 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.	Support noted.
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. ⁴ 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.	Support noted. The IAASB Staff reached out to IASB Staff to further understand matters relevant to the IAASB as it develops the separate standard.
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.	Point noted. The LCE Task Force continue to develop the appropriate applicability for the standard, including outreach activities as appropriate.
<i>December 2020 CAG Report-Back (Project Proposal)</i>	
Mr. Dalkin questioned how the international Standards on Auditing (ISA) requirements could be incorporated to retain the robustness of those requirements (such as the recently revised standards such as ISA 540 (Revised) ⁵ which were perceived to be complex) while still making	Mr. Hagen explained the process of the development of the initial draft, noting that all core requirements would be included as appropriate in the circumstances of an LCE audit. He referred to the 'mapping' document that had been prepared to help understand how

⁴ International Financial Reporting Standard for Small and Medium-sized Entities

⁵ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

Representatives' Comments	Working Group / IAASB Response
appropriate for audits of LCEs.	the requirements from the ISAs had been incorporated. Mr. Hagen also explained that in order to manage length the [draft] audit standard, the standard does not include application material. Instead, he further explained that the structure of the [draft] audit standard follows the flow of the audit, with the objective of writing clear, principle-based requirements which would be more easily understood. He further explained that in the case of ISA 540 (Revised), the LCE Working Group had scoped out the complex estimates and included requirements which are relevant for non-complex estimates that would be more appropriate to audits of LCEs.
Mr. Munter highlighted the importance of the scoping of the standard. Messrs. Munter and Hirai both supported excluding listed entities explicitly.	Mr. Seidenstein agreed as to the importance of the scoping of the standard, and emphasized that it is not intended to apply to audits of listed entities. He also highlighted that individual jurisdictions would have the ability to decide whether or not to use the audit standard, as well as restrict its use further.
Mr. Munter cautioned against changing the requirements too much as it may create confusion if the two sets of requirements were vastly different, but noted he did support further clarity within the requirements. He also noted a risk that the Board could inadvertently develop an audit standard for LCEs which would differentiate the standard relative to ISAs and which could lead to the perception of lower quality audits for LCEs, and questioned whether an alternative would be to rather develop educational materials for supporting LCE's apply the ISAs. Mr. Hirai also cautioned about confusion with two sets of standards, also highlighting the need to maintain high-quality audits. Mr. Munter recommended that the project proposal highlight these issues so that they can be monitored and addressed.	Mr. Hagen recognized that there is a risk of developing a two-tier system where audits of LCE's were perceived to be of lower quality, but highlighted that the focus had been on maintaining the robustness of the ISA requirements and therefore maintain a high level of audit quality. Mr. Seidenstein also highlighted the input from the LCE Reference Group, noting that extensive continuous input from the LCE Reference Group. He added that this was put in place to add an additional layer of trust that the standard would achieve a high-quality audit.
Mr. Hirai encouraged the Board to not widen the	Point noted.

Representatives' Comments	Working Group / IAASB Response
expectation gap further with another auditing standard. Mr. Munter encouraged that the LCE Working Group carefully monitor and mitigate these risks as the project progresses.	
Ms. Robert, and Messrs. Cela, Norberg, De Tullio, Rees, Pavas and Sobel noted their strong support for the project. Ms. Robert and Dr. Cela highlighted the strategic importance of this project as a sustainable solution with respect to audits of LCEs in Europe. Mr. Pavas highlighted that the development of the audit standard for LCEs is very timely for Latin America, but noted that the scope of the audit procedures needed to be very clear in order for the standard to be successfully used.	Support noted.
Dr. Cela noted that the audit standard for LCEs is a good solution that could be applicable for both statutory and voluntary audits of LCEs. Ms. Robert, and Messrs. Cela and Norberg highlighted that it is important that a solution for the challenges in audits of LCEs be developed on a global scale because of the present risk of fragmentation where national jurisdictions are developing their own solutions for audits of LCEs.	Mr. Seidenstein emphasized that although developing guidance and educational material had been considered, it was decided that the risks of separate jurisdictions developing their own solutions for audits of LCEs could not be mitigated effectively in this manner and divergence at the international level would continue to emerge. He further added that this risk needed to be mitigated and hence the priority for this project.
Ms. Robert and Dr. Cela highlighted the importance of careful scoping of the standard for audits of LCEs, noting that it would be helpful for examples to be developed to show how the standard may be applied in practice.	Mr. Hagen explained that the LCE Working Group would further consider the development of guidance and/or implementation material to support the application of the [draft] audit standard, including what could be done by others.
Ms. Robert noted that it would be important to understand the difference, as applicable, between applying the audit standard for LCEs and the ISAs, and being transparent in the auditor's report about which standards have been used for the audit. Ms. Meng highlighted there is a need for auditors to document the reasons why an audit was considered an LCE and that this information	Points noted. There are 'mapping' documents explaining the differences in the requirements between the ISAs and the draft ISA for LCE.

Representatives' Comments	Working Group / IAASB Response
should be available to users of such audit reports.	
<p>Mr. De Tullio and Mr. Sobel noted that it would be necessary to address and clarify the point when an entity and its audit become complex and the standard is no longer appropriate, as well as how auditors would transition from one set of standards to the other. Mr. Sobel encouraged that a decision tree be considered to help auditors with the distinction between what is complex and what is less complex.</p>	<p>Points noted.</p> <p>Mr. Hagen explained that the introduction to the [draft] audit standard includes considerations with respect to its applicability, indicators for what makes an audit complex as well as a description of circumstances when the standard is not appropriate to be used. In this respect, Mr. Hagen also noted that there is a requirement to reaffirm the decision on scoping that is also included in the [draft] audit standard. Mr. Hagen further explained that more work needs to be done with respect to transitioning from one set of standards to another. He added that it is likely that the mapping exercise performed can be helpful in this respect as it can be clearly understood which requirements of the ISAs have not been included, or changed, in the [draft] audit standard for LCEs.</p>
<p>Mr. De Tullio questioned what the implications for audit firms would be, in particular the need for maintaining different training and methodology for auditors applying the audit standard for LCEs versus those undertaking ISA audits.</p>	<p>Mr. Hagen explained that because the audit standard for audits of LCEs is based on the ISAs, it is unlikely that there would be significant differences in training for auditors.</p>
<p>Mr. Thompson highlighted that there are important lessons that can be learned from the International Accounting Standards Board's (IASB) experience when developing the International Financial Reporting Standard for Small and Medium Sized Entities (IFRS for SME) Standard, especially as there were similar concerns expressed by stakeholders with respect to developing a two-tier system and a lower quality of standards relative to full IFRS. He noted that many of the concerns did not materialize. Mr. Thompson also noted that lessons could be learned from the IASB with respect to maintaining two sets of different standards, and highlighted the importance of the advisory role that the IFRS Implementation Group has in this respect. Mr. Dalkin also shared the</p>	<p>Points noted.</p>

Representatives' Comments	Working Group / IAASB Response
USA experience where two sets of audit standards exist, i.e., the standards issued by the Public Company Accounting Oversight Board (PCAOB) applicable for audits of public companies and those issued by the American Institute of Certified Public Accountants (AICPA) applicable for audits of other entities. Mr. Dalkin noted that the differences between these two sets of standards arise mainly as a result of added regulatory requirements by the PCAOB.	
Mr. Rees highlighted the importance of external communications to emphasize that this standard is not of a lesser quality relative to the ISAs. Mr. Rees also explained that one of the decisions the IASB made with respect to the IFRS for SME was to periodically review the need for updates. He also explained that IFRS for SME has limited application guidance within the standard, however he added that the IASB did develop implementation materials and training modules to support its application.	Point noted.

Matters for IAASB CAG Consideration

7. The draft ISA for LCE in the IAASB March 2021 meeting (IAASB Agenda Item 4-A) will be provided to Representatives for discussion. In this meeting, Representatives are asked for views on:
 - (a) The applicability of the draft ISA for LCE (see **Agenda Item D.4**, Section A).
 - (b) The reporting requirements of the draft ISA for LCE (Part 9 and Appendix 6 of IAASB **Agenda Item D.4**).
8. Representatives are also asked whether there are any other comments in relation to the draft ISA for LCE that the LCE Task Force should consider as it finalizes the draft for exposure.

Material Presented – IAASB CAG Papers

Agenda Item D.1	Audits of Less Complex Entities—Presentation
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Appendix A

Project Details and History

Project: Audits of Less Complex Entities

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

Working Group Members

- 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)

Summary

	IAASB CAG Meeting	IAASB Meeting
Project commencement and preliminary discussions on audit issues relevant to Audits of Less Complex Entities	March 2017 September 2017	March 2017 March 2018 (Executive session)
Discussion on the proposal to undertake work to develop a Discussion Paper to obtain stakeholder views on matters related to issues and challenges when auditing less complex entities	September 2018	September 2018
Discussion on the IAASB's proposed Discussion Paper, <i>Audits of Less Complex Entities: Exploring Possible Actions to Address the Challenges</i> .	March 2019	March 2019
Discussion on way forward regarding audits of less complex entities	March 2020 September 2020	December 2019 April 2020 June 2020
Development of Exposure Draft of ISA for LCE	September 2020	December 2020

IAASB CAG Discussions: Detailed References

Information gathering	<p><u>March 2017</u></p> <p>See IAASB CAG meeting material (Agenda Item G) and meeting minutes: https://www.iaasb.org/cag/meetings/iaasb-cag-meeting</p> <p><u>September 2017</u></p> <p>See IAASB CAG meeting material (Agenda Item C) and meeting minutes: https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-madrid-spain</p>
Work Proposal	<p><u>September 2018</u></p> <p>See IAASB CAG meeting material (Agenda Item I) and meeting minutes (Agenda Item A) http://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-0</p>
Discussion of IAASB's proposed Discussion Paper, Audits of Less Complex Entities: Exploring Possible Actions to Address the Challenges	<p><u>March 2019</u></p> <p>See IAASB CAG meeting material (Agenda Item E) and meeting minutes: https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-1</p>
Discussion of further matters for Board consideration in relation to Audits of LCEs	<p><u>March 2020</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item N) https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-3</p> <p><u>September 2020</u></p> <p>See IAASB CAG meeting material (Agenda Item E) https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-virtual-videoconferencing</p>
Discussion of project proposal for developing a separate standard for audits of financial statements of LCEs	<p><u>December 2020</u></p> <p>See IAASB CAG meeting material and CAG meeting minutes (Agenda Item A) https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-december-1-2020-virtual</p>

Appendix B

Draft CAG Minutes⁶ – December 2020

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

To *OBTAIN* Representatives' views on the project proposal for development of a separate standard to audit the financial statements of a less complex entity (LCE).

Mr. Hagen, Chair of the LCE Working Group introduced the topic, explaining the basis for the development of the project proposal, as well as describing the work that had been undertaken in developing the initial draft of the standard.

PROPOSED DIRECTION FORWARD

Representatives commented generally as follows:

- Mr. Dalkin questioned how the international Standards on Auditing (ISA) requirements could be incorporated to retain the robustness of those requirements (such as the recently revised standards such as ISA 540 (Revised) ⁷ which were perceived to be complex) while still making appropriate for audits of LCEs. Mr. Hagen explained the process of the development of the initial draft, noting that all core requirements would be included as appropriate in the circumstances of an LCE audit. He referred to the 'mapping' document that had been prepared to help understand how the requirements from the ISAs had been incorporated. Mr. Hagen also explained that in order to manage length the [draft] audit standard, the standard does not include application material. Instead, he further explained that the structure of the [draft] audit standard follows the flow of the audit, with the objective of writing clear, principle-based requirements which would be more easily understood. He further explained that in the case of ISA 540 (Revised), the LCE Working Group had scoped out the complex estimates and included requirements which are relevant for non-complex estimates that would be more appropriate to audits of LCEs.
- Mr. Munter highlighted the importance of the scoping of the standard. Messrs. Munter and Hirai both supported excluding listed entities explicitly. Mr. Seidenstein agreed as to the importance of the scoping of the standard, and emphasized that it is not intended to apply to audits of listed entities. He also highlighted that individual jurisdictions would have the ability to decide whether or not to use the audit standard, as well as restrict its use further.
- Mr. Munter cautioned against changing the requirements too much as it may create confusion if the two sets of requirements were vastly different, but noted he did support further clarity within the requirements. He also noted a risk that the Board could inadvertently develop an audit standard for LCEs which would differentiate the standard relative to ISAs and which could lead to the perception of lower quality audits for LCEs, and questioned whether an alternative would be to rather develop educational materials for supporting LCE's apply the ISAs. Mr. Hirai also cautioned about confusion with two sets of standards, also highlighting the need to maintain high-

⁶ These draft CAG minutes are still subject to review and therefore may further change.

⁷ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

quality audits. Mr. Munter recommended that the project proposal highlight these issues so that they can be monitored and addressed. Mr. Hagen recognized that there is a risk of developing a two-tier system where audits of LCE's were perceived to be of lower quality, but highlighted that the focus had been on maintaining the robustness of the ISA requirements and therefore maintain a high level of audit quality. Mr. Seidenstein also highlighted the input from the LCE Reference Group, noting that extensive continuous input from the LCE Reference Group. He added that this was put in place to add an additional layer of trust that the standard would achieve a high-quality audit.

- Mr. Hirai encouraged the Board to not widen the expectation gap further with another auditing standard. Mr. Munter encouraged that the LCE Working Group carefully monitor and mitigate these risks as the project progresses.

Representatives commented on the project proposal as follows:

- Ms. Robert, and Messrs. Cela, Norberg, De Tullio, Rees, Pavas and Sobel noted their strong support for the project. Ms. Robert and Dr. Cela highlighted the strategic importance of this project as a sustainable solution with respect to audits of LCEs in Europe. Mr. Pavas highlighted that the development of the audit standard for LCEs is very timely for Latin America, but noted that the scope of the audit procedures needed to be very clear in order for the standard to be successfully used.
- Dr. Cela noted that the audit standard for LCEs is a good solution that could be applicable for both statutory and voluntary audits of LCEs. Ms. Robert, and Messrs. Cela and Norberg highlighted that it is important that a solution for the challenges in audits of LCEs be developed on a global scale because of the present risk of fragmentation where national jurisdictions are developing their own solutions for audits of LCEs. Mr. Seidenstein emphasized that although developing guidance and educational material had been considered, it was decided that the risks of separate jurisdictions developing their own solutions for audits of LCEs could not be mitigated effectively in this manner and divergence at the international level would continue to emerge. He further added that this risk needed to be mitigated and hence the priority for this project.
- Ms. Robert and Dr. Cela highlighted the importance of careful scoping of the standard for audits of LCEs, noting that it would be helpful for examples to be developed to show how the standard may be applied in practice. Mr. Hagen explained that the LCE Working Group would further consider the development of guidance and/or implementation material to support the application of the [draft] audit standard, including what could be done by others.
- Ms. Robert noted that it would be important to understand the difference, as applicable, between applying the audit standard for LCEs and the ISAs, and being transparent in the auditor's report about which standards have been used for the audit. Ms. Meng highlighted there is a need for auditors to document the reasons why an audit was considered an LCE and that this information should be available to users of such audit reports.
- Mr. De Tullio and Mr. Sobel noted that it would be necessary to address and clarify the point when an entity and its audit become complex and the standard is no longer appropriate, as well as how auditors would transition from one set of standards to the other. Mr. Sobel encouraged that a decision tree be considered to help auditors with the distinction between what is complex and what is less complex. Mr. Hagen explained that the introduction to the [draft] audit standard

includes considerations with respect to its applicability, indicators for what makes an audit complex as well as a description of circumstances when the standard is not appropriate to be used. In this respect, Mr. Hagen also noted that there is a requirement to reaffirm the decision on scoping that is also included in the [draft] audit standard. Mr. Hagen further explained that more work needs to be done with respect to transitioning from one set of standards to another. He added that it is likely that the mapping exercise performed can be helpful in this respect as it can be clearly understood which requirements of the ISAs have not been included, or changed, in the [draft] audit standard for LCEs.

- Mr. De Tullio questioned what the implications for audit firms would be, in particular the need for maintaining different training and methodology for auditors applying the audit standard for LCEs versus those undertaking ISA audits. Mr. Hagen explained that because the audit standard for audits of LCEs is based on the ISAs, it is unlikely that there would be significant differences in training for auditors.
- Mr. Thompson highlighted that there are important lessons that can be learned from the International Accounting Standards Board's (IASB) experience when developing the International Financial Reporting Standard for Small and Medium Sized Entities (IFRS for SME) Standard, especially as there were similar concerns expressed by stakeholders with respect to developing a two-tier system and a lower quality of standards relative to full IFRS. He noted that many of the concerns did not materialize. Mr. Thompson also noted that lessons could be learned from the IASB with respect to maintaining two sets of different standards, and highlighted the importance of the advisory role that the IFRS Implementation Group has in this respect. Mr. Dalkin also shared the USA experience where two sets of audit standards exist, i.e., the standards issued by the Public Company Accounting Oversight Board (PCAOB) applicable for audits of public companies and those issued by the American Institute of Certified Public Accountants (AICPA) applicable for audits of other entities. Mr. Dalkin noted that the differences between these two sets of standards arise mainly as a result of added regulatory requirements by the PCAOB.
- Mr. Rees highlighted the importance of external communications to emphasize that this standard is not of a lesser quality relative to the ISAs. Mr. Rees also explained that one of the decisions the IASB made with respect to the IFRS for SME was to periodically review the need for updates. He also explained that IFRS for SME has limited application guidance within the standard, however he added that the IASB did develop implementation materials and training modules to support its application.

PIOB COMMENTS

Mr. Kashiwagi explained that from the PIOB perspective there is a preference for one set of audit standards but at the same time there is understanding for the need for this project. He therefore noted support for the project proposal. Mr. Kashiwagi highlighted that the PIOB concerns raised previously with respect to the project timeline have been addressed as the project proposal indicates a shorter timeline for completion of the audit standard for LCEs (i.e., in December 2022), which has been reduced by one year. In addition, he also noted that the concern with respect to the allocation of resources to support this project had also, to an extent, been mitigated by the establishment of the LCE Reference Group to supplement the activities of the LCE Working Group.

WAY FORWARD

Mr. Hagen thanked the Representatives for their feedback. He explained that the LCE Working Group would be presenting the project proposal for developing an auditing standard for audits of LCEs, and an initial draft of the audit standard, to the IAASB for discussion in December 2020.