

**Meeting:** IAASB Consultative Advisory Group (CAG)  
**Meeting Location:** Virtual Meeting  
**Meeting Date:** September 8–9, 2021

## Agenda Item

# F

### Audits of Less Complex Entities – Cover

#### Objective of Agenda Item

1. The objective of this agenda item is to provide Representatives with an update on the project to develop a separate standard for audits of financial statements of less complex entities: now titled the International Standard on Auditing for Less Complex Entities (ISA for LCE).

#### Project Status

2. After the approval of the project proposal by the IAASB in December 2020, a draft of the ISA for LCE was presented for discussion at the March and June 2021 IAASB meetings. An extract of the draft, Part A, relating specifically to the Authority of the standard, was also presented and discussed at the May 2021 meeting.
3. The key changes made since the draft of the proposed standard distributed to the CAG in March 2021 include:
  - (a) To update the Authority (applicability) of the Standard as described in Part A to more clearly describe outright restrictions of use (e.g., listed entities) and limitations that can be changed or added at the local jurisdiction level (e.g., those related to classes of entities with public interest characteristics). Part A also more clearly describes the qualitative characteristics that would make the standard inappropriate for use, and the role of the firms and engagement teams (see Section 4B of the Explanatory Memorandum accompanying the ED-ISA for LCE, presented at **Agenda Item F.2.**).
  - (b) To change the approach to reporting requirements (Part 9) to now include a specified content and format for an unmodified auditor's report and using tables to present requirements, wording, form and content of modified reports (see paragraphs 117-124 of the Explanatory Memorandum, presented at **Agenda Item F.2.**).
  - (c) To address other IAASB comments from the March, May and June meetings, in particular to align more closely with the ISAs in some areas.
  - (d) To further revise the draft to make it appropriate to the circumstances of an audit of a less complex entity based on input from the LCE Task Force, the LCE Reference Group and other stakeholders.
4. At the June 2021 meeting, the IAASB approved the ED-ISA for LCE which is presented at **Agenda Item F.2.** The draft standard was published for consultation in July 2021 and the comment period will be open until the end of January 2022. The exposure draft and its supporting documents will also be published in Spanish and French in September 2021.

5. In addition to the ED-ISA for LCE, in order to support the consultation, the IAASB has developed a dedicated [Focus Area webpage](#) with relevant resources, including:
  - (a) Proposed Supplementary Guidance: Authority of the Standard.
  - (b) Proposed Supplementary Guidance: Auditor Reporting<sup>1</sup>.
  - (c) Mapping Documents: ISAs to Proposed ISA for LCE<sup>1</sup>.
  - (d) Optional Response Template for ED-ISA for LCE.
  - (e) Explanatory Videos on the proposed ISA for LCE in English, Spanish and French.
  - (f) Previously published IAASB publications including *Discussion Paper: Audits of Less Complex Entities: Exploring Options to Address the Challenges in Applying the ISAs, Feedback Statement and Way Forward: Audits of Less Complex Entities* and relevant Communiqués.
6. The IAASB agreed that consultation is needed on the draft new standard, including its scope and content, and intends to undertake rigorous outreach to obtain input from those for whom the standard is intended. An outreach plan will be published by the IAASB in August 2021 that will be shared with Representatives once it is finalized.
7. **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?

8. Extracts from the draft minutes of the March 2021 IAASB CAG meeting, as well as an indication of how the LCE Task Force or IAASB has responded to the Representatives' comments, are included in the table below.

Representatives' Comments	Task Force / IAASB Response
OVERALL COMMENTS	
Representatives broadly recognized the progress that had been made with regard to developing a separate standard for auditing the financial statements of LCEs, with Messrs. Cela and Sobel expressing appreciation for the speed and progress on the development of the separate standard. Ms. McGeachy expressed the ongoing support for this project from the SMP Advisory Group.	Mr. Hagen thanked the Representatives for their support.

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<sup>1</sup> These documents will be published on the Focus Area webpage in late August 2021.

Representatives' Comments	Task Force / IAASB Response
APPLICABILITY OF THE ISA FOR AUDITS OF LCEs	
<ul style="list-style-type: none"> <li>Strong concern about excluding group audits was expressed by Messrs. Pavas, Norberg, Cela, Thompson and Mmes. Blomme, Mubarak and McGeachy. It was highlighted that many entities that would otherwise meet the criteria to use the draft ISA for LCE would be scoped out of using the standard.</li> <li>Dr. Norberg added that if all the entities in the group met the criteria to use the draft ISA for LCE the audit of the group financial statements should be able to be undertaken using the standard.</li> <li>Ms. Blomme questioned whether the IAASB would reconsider this decision.</li> </ul>	<ul style="list-style-type: none"> <li>Mr. Hagen recognized the strong concern, noting that the IAASB had also heard these concerns from other stakeholders. He explained that although audits of group financial statements would be excluded from the ISA for LCE the IAASB was still open to hearing the different views of its stakeholders about the exclusion of group audits. He added that it was intended that this would be explored in the Explanatory Memorandum that will accompany the ED-ISA for LCE, including obtaining views on the impact on the use of the standard of including group audits, as well as other related questions.</li> <li>This has now been included in Section 5 of the Explanatory Memorandum at <b>Agenda Item F.2.</b></li> </ul>
<ul style="list-style-type: none"> <li>Mr. Yurdakul encouraged the LCE Task Force to consider whether size should be included in the applicability criteria.</li> </ul>	<ul style="list-style-type: none"> <li>Mr. Hagen explained that it would be difficult to do this on a global basis but added that each jurisdiction would be able to add a size limit if needed for that jurisdiction.</li> <li>This has now been clarified in Part A of the ED-ISA for LCE and paragraphs 34-40 of the Supplemental Guide on Authority (see also paragraphs 64-67 of the Explanatory Memorandum at <b>Agenda Item F.2.</b>).</li> </ul>
<ul style="list-style-type: none"> <li>Dr. Cela encouraged that further consideration be given to making the judgment areas more clear, noting that this could also be done through guidance.</li> </ul>	<ul style="list-style-type: none"> <li>Point noted. The IAASB developed a Supplemental Guide – Authority of the Standard to provide additional guidance on the matters and circumstances that make the proposed standard appropriate, including whether the entity exhibits the qualitative characteristics of a less complex entity (i.e., to further explain the relevant judgments that need to be made). See paragraphs 24–29 of the</li> </ul>

Representatives' Comments	Task Force / IAASB Response
	Supplemental Guide – Authority for further details.
<ul style="list-style-type: none"> <li>• Messrs. Yurdakul, Choromanski and Hirai encouraged further consideration of the impact of the work being undertaken by the International Ethics Standards Board for Accountants IESBA in relation to public interest entities (PIE's), including whether the exclusion of listed entities should be extended to include all PIEs.</li> <li>• Messrs. Choromanski and Hirai also noted continued support for excluding listed entities from being able to use the ISA for LCE.</li> <li>• Ms. Mubarak encouraged the inclusion of entities that are publicly accountable.</li> </ul>	<ul style="list-style-type: none"> <li>• Mr. Hagen noted that the LCE Task Force was closely following the work of IESBA on its PIE project, and further consideration would be given to this once IESBA had progressed its project after the comments to its exposure draft had been analyzed. He noted that the LCE Task Force had considered the term “public accountability” but had agreed not to pursue another term in the IAASB’s literature as this may cause confusion. He also reminded Representatives that each jurisdiction would be able to tailor the applicability further if needed for their individual jurisdiction.</li> <li>• Since the March 2021 CAG meeting, significant discussion has been held with regard to how entities with PIE characteristics are addressed within the standard. In the ED-ISA for LCE, entities with public interest characteristics are prohibited from use, however there are some types of entities that may fall into these categories that are exempt – see explanation of the modifications that can be made at a jurisdictional level related to entities that exhibit public interest characteristics in paragraphs 55-61 of the Explanatory Memorandum at <b>Agenda Item F.2.)</b> and paragraphs 14-23 of the of the <a href="#">Supplemental Guide – Authority</a>.</li> </ul>

Representatives' Comments	Task Force / IAASB Response
<ul style="list-style-type: none"> <li>Ms. Landell-Mills questioned the exclusion of ISA 701,<sup>2</sup> noting the importance of this information for users and investors and highlighting the transparency that it brings to the audit.</li> </ul>	<ul style="list-style-type: none"> <li>Point noted. The IAASB further deliberated the exclusion of requirements from ISA 701 but agreed that including such requirements would be inconsistent with the principle of a standalone standard targeted at LCEs. It is noted that where common in a particular jurisdiction, requirements may be added as part of additional jurisdictional content.</li> </ul>
<ul style="list-style-type: none"> <li>Mr. Yurdakul highlighted the importance of aligning the requirements in the ISA for LCE with the corresponding requirements in the ISAs, noting that the users of the ISA for LCE could refer back to the ISAs if needed. He also encouraged that further consideration be given to ensuring that all procedures for obtaining audit evidence are included.</li> <li>Mr. Thompson also supported the alignment with the ISAs, but noted that it would be important to ensure that the standard was still appropriate for LCEs and that requirements should not be included because an entity "may" one day become complex. He also cautioned that the messaging in relation to the ISA for LCE should not be pitched as being a condensed or simplified version of the ISAs.</li> </ul>	<ul style="list-style-type: none"> <li>Points noted. The IAASB has undertaken an analysis of how the requirements in ED-ISA for LCE 'map' against the equivalent ISA requirements. This mapping, which includes commentary to explain any differences, will be available to the public during the consultation period<sup>3</sup>.</li> <li>The requirements in the ISAs form the basis for the requirements within the ED-ISA for LCE. This involved identifying those core procedures requirements within the ISAs that are considered core to an audit within the ISAs that need to be undertaken in an audit (where they are relevant in an audit of an LCE) and tailored adapted to suit the nature and circumstances of less complex entities as contemplated by the proposed standard. See paragraphs 102-106 of the Explanatory Memorandum at <b>Agenda Item F.2.</b> for further explanation.</li> </ul>

<sup>2</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>3</sup> These mapping documents are in the process of being finalized and will be published in August 2021. Agenda Items 2- B1 and B2 presented at the [June 2021 IAASB Meeting](#) contain the mapping based on the proposed ISA for LCE as presented for that meeting and may be used as reference until the final versions, which reflect the subsequent changes to the ED-ISA for LCE are published. .

Representatives' Comments	Task Force / IAASB Response
<ul style="list-style-type: none"> <li>With regard to governance structures and the way that they had been described in the applicability Part, Mr. Ruhtman highlighted the need to further consider public sector entities as many of these could have more complex governance structures but would nevertheless meet the other criteria for the use of the ISA for LCE.</li> </ul>	<ul style="list-style-type: none"> <li>Mr. Hagen noted that further consideration would need to be given to public sector considerations within the standard more broadly and thanked Mr. Ruhtman for highlighting this particular issue. He also noted that the matters where judgment was needed with regard to applicability were not a 'checklist,' and each of the matters noted would need to be considered in combination with the other matters to determine if an entity would be able to use the standard or not.</li> <li>The Supplemental Guide – Authority (table following paragraph 28) includes specific guidance that governance structures are not always an indicator of complexity for charities or public sector entities. Part A of the ED-ISA for LCE also states that each of the qualitative characteristics may on its own not be sufficient to determine complexity.</li> </ul>
<ul style="list-style-type: none"> <li>Mr. Sobel encouraged further consideration of how the transition back to the ISAs would need to be undertaken.</li> <li>He also encouraged that further consideration be given to excluding the use of internal auditors as LCE's may still be using the work of internal audit.</li> </ul>	<ul style="list-style-type: none"> <li>Point noted. A high-level description of transition back to the ISAs is now included in paragraphs 130-141 of the Explanatory Memorandum (presented at <b>Agenda Item F.2.</b>), which also includes a specific question for public comment on this topic.</li> <li>After further consideration, requirements relating to the use of internal auditors (ISA 610 (Revised 2013)) continue to be excluded due to the typical complexity of organizations with internal audit functions. See paragraph 102(b) of the Explanatory Memorandum at <b>Agenda Item F.2.</b> for further discussion.</li> </ul>
<ul style="list-style-type: none"> <li>Mr. Thompson also encouraged that further consideration be given to how the exposure draft would be 'promoted' while out on consultation. He emphasized it was important to hear from those who would likely use the standard but would likely not ordinarily respond to an IAASB consultation.</li> </ul>	<ul style="list-style-type: none"> <li>Point noted. The IAASB intends to undertake rigorous outreach to obtain input of those for whom the standard is intended, including specifically targeting groups that do not ordinarily respond to our consultations. An outreach plan will be published by the IAASB in August 2021.</li> </ul>

Representatives' Comments	Task Force / IAASB Response
<b>REPORTING</b>	
<ul style="list-style-type: none"> <li>Mr. Hirai questioned whether the auditor's report would be able to explain the auditor's judgments made in determining the use of the ISA for LCE standard, as this would provide more transparency for users.</li> </ul>	<ul style="list-style-type: none"> <li>Point noted. After further consideration, this suggestion was not pursued. The IAASB has the view that the auditor's report required by the proposed standard, should provide the same information as an ISA auditor's report, but with the transparency for users of those reports as to which standard(s) have been used.</li> </ul>
<ul style="list-style-type: none"> <li>Ms. Blomme questioned whether it would be appropriate to further distinguish the auditor's report from an ISA auditor's report, as this would be more helpful to users.</li> </ul>	<ul style="list-style-type: none"> <li>Mr. Hagen explained that changes had already been proposed to try and distinguish the auditor's report but noted that further consideration would be given to this.</li> <li>As noted above, after further consideration, the IAASB felt the report should provide the same overall information as an ISA report and in the same format, which is what has been presented in the ED-ISA for LCE.</li> </ul>
<b>OTHER MATTERS</b>	
<ul style="list-style-type: none"> <li>Mr. Pavas noted that it was not clear if the users of the ISA for LCE could also use the ISAs if the ISA for LCE did not address a specific matter.</li> </ul>	<ul style="list-style-type: none"> <li>Mr. Hagen explained that it was intended that the standard would be a standalone standard, without direct reference to the ISAs. However, he added that the ISAs could be used as reference material if needed as the requirements within ED-ISA for LCE were based on the ISA requirements as they are relevant to an audit of an LCE.</li> </ul>
<ul style="list-style-type: none"> <li>Mr. Orth questioned whether a walk-through test would still be required to test the design and implementation of relevant controls.</li> </ul>	<ul style="list-style-type: none"> <li>Mr. Hagen explained that the underlying concept of understanding the entity's system of internal control in the ED-ISA for LCE had not changed from what was required in an ISA audit, i.e., to understand the information system and perform design and implementation procedures on specified controls only.</li> </ul>

**Material Presented – IAASB CAG Papers**

**Agenda Item F.1:** Audits of Less Complex Entities—Presentation

**Agenda Item F.2:** ED-ISA for LCE: Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (For Reference)



## Appendix A

### Project Details and History

#### Project: Audits of Less Complex Entities

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

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

#### Task Force Members

- Kai Morten Hagen, IAASB Member, 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 March 2021	December 2020 March 2021

		April 2021 June 2021
Approval of Exposure Draft of ISA for LCE		June 2021

#### 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: <a href="https://www.iaasb.org/cag/meetings/iaasb-cag-meeting">https://www.iaasb.org/cag/meetings/iaasb-cag-meeting</a></p> <p><u>September 2017</u></p> <p>See IAASB CAG meeting material (Agenda Item C) and meeting minutes: <a href="https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-madrid-spain">https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-madrid-spain</a></p>
Work Proposal	<p><u>September 2018</u></p> <p>See IAASB CAG meeting material (Agenda Item I) and meeting minutes (Agenda Item A) <a href="http://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-0">http://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-0</a></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: <a href="https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-1">https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-1</a></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) <a href="https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-3">https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-new-york-ny-3</a></p> <p><u>September 2020</u></p> <p>See IAASB CAG meeting material (Agenda Item E) <a href="https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-virtual-videoconferencing">https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-virtual-videoconferencing</a></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) <a href="https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-december-1-2020-virtual">https://www.iaasb.org/cag/meetings/iaasb-cag-meeting-december-1-2020-virtual</a></p>

	<p><u>March 2021</u></p> <p>See IAASB CAG meeting material (Agenda Item D)</p> <p><a href="#">IAASB CAG Meeting - March 8-9, 2021 (Virtual)   IFAC</a></p>
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