

# Agenda Item B.4 For Reference

Please note: This is the IAASB LCE Issues Paper that will be discussed by the Board at the September 2022 IAASB quarterly meeting (Agenda Item 5). This paper is provided to the IAASB CAG Representatives in September 2022 for reference purposes.

## Audits of Less Complex Entities – Issues Paper

### Objective of the Board Discussion

The objective of the IAASB discussion is to obtain the Board's input on the Less Complex Entities (LCE) Task Force's (the Task Force):

- Drafting with respect to the Authority and audits of group financial statements; and
- Views and recommendations on the way forward in relation to selected topics.

Matters for Board Consideration are set out within this paper.

### Board Discussion

#### Issues Paper

This paper describes the issues addressed by the Task Force and for discussion with the IAASB at its September 2022 meeting.

#### *Appendices to this Paper*

<b>Appendix 1</b>	The Task Force Members and Activities
<b>Appendix 2</b>	Summary of Discussion with LCE Reference Group: June 2022
<b>Appendix 3</b>	What Makes an Accounting Estimate "More or Less Complex"
<b>Appendix 4</b>	Reconciliation of ED-ISA for LCE Question Analysis

#### Other Agenda Items

<b>Agenda Item 5-A</b>	Proposed Authority
<b>Agenda Item 5-B</b>	Explanation of Significant Changes to Authority
<b>Agenda Item 5-C</b>	Evaluation of Requirements in ISA 600 (Revised) <sup>1</sup>
<b>Agenda Item 5-D</b>	Part 10, Audits of Group Financial Statements

<sup>1</sup> International Standard on Auditing (ISA) 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

**Agenda Item 5-E**

**Illustrative Drafting: Requirements Proportionate to LCEs – Part 6**

**Approach to the Board Discussion**

The Board will discuss the questions in order as included in the issues paper.

## Introduction

### What Have We Done Since We Last Met?

1. **Appendix 1** sets out the members of the Task Force, as well as its activities, which included a hybrid meeting and two virtual meetings.
2. Following the direction provided by the Board in the June 2022 IAASB meeting ([see draft minutes](#)), drafting has progressed in targeted areas of the proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE):
  - (a) Part A, *Authority of the Standard*; and
  - (b) Part 10, *Audits of Group Financial Statements*.
3. The Task Force also further explored targeted matters, as directed by the Board in the June 2022 meeting, including:
  - (a) What type of accounting estimates may be more commonly held by a “typical LCE”, what factors contribute to complexity in those accounting estimates and whether, and how accounting estimates may be described in the Authority to the proposed standard.
  - (b) How to further develop proportionate requirements for the nature and circumstances of the audits of an LCE through tailored or less granular requirements in targeted areas of the proposed standard.
4. The Task Force has also benefited from input from the [LCE Reference Group](#) (the Reference Group). A high-level summary of the input received has been included at **Appendix 2**.
5. This agenda item summarizes the Task Force’s discussions and views relating to the following topics:
  - (a) Authority (**section I**);
  - (b) Accounting estimates (**section II**);
  - (c) Group audits (**section III**); and
  - (d) Approach to proportionate requirements for LCEs (**section IV**).

### Liaison with the Task Forces and Others

6. Staff supporting the LCE project met with Staff supporting the [IAASB’s project to address changes in the definition of listed entities and public interest entities](#), in order to discuss matters of mutual interest including the potential adoption of the revised definitions in the IAASB’s International standards, and the related differential requirements. Staff supporting both projects, and respective Task Force Chairs, will continue to liaise prior to the December 2022 board meeting.

7. As the project continues to progress and further revisions are proposed, Staff supporting the LCE project will consider liaising with other task forces, working groups and consultations groups (including the Fraud Task Force and Technology Consultation Group) as appropriate.

## Section I: Authority

### Revisions to Part A, Authority of the Standard

8. Based on feedback from the June 2022 Board Discussion and detailed analysis of comments from the [Exposure Draft](#) of the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ED-ISA for LCE), the Task Force proposes further revisions to the Authority which have been set out in **Agenda Item 5-A**. The **Agenda Item 5-B** describes the significant changes to **Agenda Item 5-A**.

#### General Themes

9. The below table considers some of the more general themes identified by respondents to ED-ISA for LCE regarding the Authority of the proposed standard (as originally described in the [June Issues Paper](#)), and the Task Force’s proposals for responding to these comments, including considering further comments made by the Board in June 2022:

Theme from ED-ISA for LCE	Proposed Response
It was noted that the Authority should be clearer about the criteria to be met to be considered a less complex entity, rather than describing complex circumstances and therefore scoping out what is a ‘complex’ entity for the purpose of the standard (i.e., describe what is “in” the standard rather than what is “out” of the standard).	In June 2022 ( <a href="#">June Issues Paper, Appendix 4</a> ), the Task Force provided initial drafting to update the qualitative characteristics included in the Authority to better reflect the description of a typical LCE. The Task Force also proposed that the qualitative characteristics should describe what is “less complex” (rather than more complex). No concerns on this were raised by the Board therefore the Task Force will continue with this approach.
<p>The Authority was “too open” (i.e., needs to be more precise) and involves too much judgment. It was noted that terminology such as “simple”, “complex”, “few”, and “many” was too subjective.</p> <p>Some respondents suggested a way to make more specific (and prescriptive) would be through describing quantitative criteria.</p>	<p>The Task Force considered how qualitative characteristics could be more precise and proposed to include quantitative indicators (e.g., number of members in management team, involved in financial reporting etc.,) in the revised qualitative characteristics (where relevant) presented in June 2022.</p> <p>Based on mixed Board feedback, the Task Force considered whether to remove the quantitative indicators from the Authority and only include them within examples in the proposed supplemental guidance for the authority of the proposed ISA for LCE (the Authority Supplemental Guide) but had the view that they were useful for increasing clarity and specificity and were clearly indicated as examples.</p> <p>The Task Force did decide to remove the word ‘generally’ when describing indicators (e.g., “generally 5 or less”)</p>

	given they are illustrative. Further guidance will be provided in the Authority Supplemental Guide.
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*Limitations*

10. As discussed in the [June Issues Paper](#) (paragraphs 128 & 145–147) the Task Force noted that, while the definition of a Public Interest Entity (PIE) for the purposes of the International Ethics Standard Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) serves a different purpose than the description of classes of entities that may exhibit public interest characteristics in ED-ISA for LCE, respondents expressed the importance of aligning them to the greatest extent possible.
11. In **Agenda Item 5-A**, brackets have been added around the two classes that would need to be removed in order to align A.1.(c) with the IESBA PIE definition. However further coordination will continue with the IAASB’s Task Force exploring the impact to the ISAs and International Standards on Quality Management of the IESBA’s Listed Entity and PIE definitions. The Task Force is not requesting input from the Board on this matter at this time.

*Comments on Individual Qualitative Characteristics*

12. As the initial targeted revisions to the Authority presented in June did not take into account detailed drafting comments from respondents of the ED-ISA for LCE regarding individual qualitative characteristics, the below table presents a summary of detailed comments received from respondents of ED-ISA for LCE.
13. The table also presents how individual characteristics were revised for the June 2022 meeting (i.e., for how to better reflect the description of a typical LCE, to describe what is less complex rather than more complex and to include quantitative indicators) and any additional feedback heard from the Board on the revised characteristics. The table then provides an explanation of further proposed changes (reflected in **Agenda Item 5-A**).

Characteristic per ED-ISA for LCE	Feedback from Respondents <sup>2</sup>	Revised Authority ( <a href="#">June Issues Paper</a> )	Proposed Changes ( <a href="#">Agenda Item 5-A</a> )
The entity’s business activities, business model or the industry in which the entity operates results in pervasive risks that increase the complexity of the audit, such as when the entity operates in new or emerging markets, or entities in the development stage.	<p>Respondents noted concern over the following being routine and not necessarily contributing to complexity:</p> <ul style="list-style-type: none"> <li>• Entering a new market</li> <li>• Developing stage (e.g., start-ups)</li> <li>• Emerging markets</li> </ul>	The entity’s business activities, business model or the industry in which the entity operates does not give rise to significant pervasive business risks and there are no specific laws or regulations that govern the business activities that add	<p>Split characteristic into two bullet points and other minor grammatical changes.</p> <p>Feedback from ED-ISA for LCE will be considered when developing further examples in the Authority Supplemental Guide, including describing what</p>

<sup>2</sup> Detailed comments on individual qualitative characteristics are included in [Supplement 2-11 to Agenda Item 6](#) previously presented at the June 2022 Board Meeting.

Characteristic per ED-ISA for LCE	Feedback from Respondents <sup>2</sup>	Revised Authority ( <u>June Issues Paper</u> )	Proposed Changes (Agenda Item 5-A)
	(concern emerging economies excluded).	complexity (e.g., prudential requirements).	relevant factors may add complexity.
The entity's operations are subject to a higher degree of regulation or to significant regulatory oversight, such as being subject to prudential regulations.	Respondents had minor comments on the use of subjective language (e.g., "higher" or "significant"), particularly in relation to specific regulated industries (e.g., daycares, insurance brokers/agents).	Merged with characteristic above.	See above.
<p>The organizational structure is not relatively straightforward or simple, such as</p> <ul style="list-style-type: none"> <li>• Multiple levels and reporting lines, with many individuals involved in financial reporting, to accommodate the entity's business activities; or</li> <li>• Including unusual entities or arrangements, such as special-purpose entities, complex joint ventures, off-balance sheet financing arrangements, or other complex financing arrangements.</li> </ul>	Respondents commented that LCEs are often structured in a certain way (e.g., a special-purpose entity due to tax planning) and that the type of entity does not always relate to complexity. Respondents proposed to concentrate on what underlying factors are driving complexity for the entity (and therefore audit) specific to organizational structure (e.g., complexity of reporting lines/levels), complexity of financial reporting process etc.,)	<p>The organizational structure is relatively straightforward, with few reporting lines or levels and a small key management team (e.g., generally 5 individuals or less).</p> <p><i>New Characteristic:</i> The entity has a centralized finance function, including centralized activities related to financial reporting, and with few employees involved in financial reporting roles (e.g., generally 5 individuals or less).</p>	<p>The TF considered the Board comment that 5 members of a management team appeared large but did not revise given it is illustrative and it may not be uncommon for LCEs (e.g., family-run entities) to have 5 individuals in key management roles. Change to separate out new characteristic on finance function into two bullet points.</p> <p>Recognizing concern that "centralized" may appear to exclude outsourcing (e.g., payroll services) the Task Force noted clarification would be included in the Authority Supplemental Guide.</p>
Ownership or oversight structures are complex.	Respondents commented that this characteristic could be subjective and the link to complexity was	The entity's ownership structure facilitates clear	Clarifying additions to make it clearer what "clear transparency"

Characteristic per ED-ISA for LCE	Feedback from Respondents <sup>2</sup>	Revised Authority ( <a href="#">June Issues Paper</a> )	Proposed Changes (Agenda Item 5-A)
	not clear. It was also noted that LCEs are often structured in a certain way (e.g., due to tax planning) and that the number of owners (a characteristic included in the Authority Supplemental Guide) would not always drive complexity.	transparency of ownership and control.	means and to use the term “straightforward”. The Task Force considered Board suggestion that the number of owners may be an additional indicator but concluded would not always drive complexity and is problematic for some entities (e.g., public sector). Will continue to be included in the Authority Supplemental Guide as factor to consider.
Transactions are complex or the information system and related processes relevant to the entity’s financial statements are complex such that the data collection and processing involves complex accounting or calculations.	Respondents commented that complexity related to transactions and to the information system are different. Concerns were noted that data collection and processing commonly exhibit complexity. Clarification was requested if online processing would be deemed complex.	The entity’s transactions result from few business activities or revenue streams. <i>(Information System dealt with below).</i>	Change to incorporate “few <b>lines of</b> business activities or revenue streams” to reflect suggestion from Board in June 2022 (i.e., different types of products increase complexity).
The entity’s IT environment or IT systems are complex, such as when the IT environment and processes involve highly-customized or highly-integrated IT applications, with internal resources or external service providers that have software	Respondents suggested to be more consistent with the characteristics used to describe complexity in ISA 315 (Revised 2019) <sup>3</sup> Appendix 5. Respondents suggested to describe what kind of information systems or packages would be less	With regard to the entity’s information technology: <ul style="list-style-type: none"> <li>The entity uses commercial software and does not have access to the source code to make any program changes (notwithstanding the ability to</li> </ul>	Added overarching requirement regarding the information technology (IT) environment, including applications and process being straightforward (to be consistent with key elements described in Appendix 5 of ISA 315 (Revised 2019)).

<sup>3</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

Characteristic per ED-ISA for LCE	Feedback from Respondents <sup>2</sup>	Revised Authority ( <u>June Issues Paper</u> )	Proposed Changes (Agenda Item 5-A)
<p>development and IT environment maintenance skills to support the IT environment and processes.</p>	<p>complex.</p>	<p>configure the software (e.g., the chart of accounts, reporting parameters or thresholds)).</p> <ul style="list-style-type: none"> <li>• Access to the software is generally one or two designated individuals with administrative access to the software to make the configurations.</li> <li>• Few formalized general IT controls are needed in the entity's circumstances.</li> </ul>	<p>Simplified language around configuring software to make easier to understand and apply. Feedback from ED-ISA for LCE will be considered when developing further examples in the Authority Supplemental Guide.</p>
<p>The entity's accounting estimates are subject to a higher degree of estimation uncertainty or the measurement basis requires complex methods that may involve multiple sources of historical and forward-looking data or assumptions, with multiple interrelationships between them.</p>	<p>Respondents raised concerns about how the characteristics was described and how this can be operationalized (see <b>Section II – Accounting Estimates</b>). Respondents suggested to link the characteristic to the financial reporting framework's complexity.</p>	<p>When there is a need for significant management judgment in the application of the financial reporting framework, it involves few amounts or disclosures in the financial statements and any related significant risk(s) of material misstatement (e.g., resulting from estimation uncertainty) is not pervasive to the entity and the financial statements as a whole.</p>	<p>Change to separate out the application of financial reporting framework and characteristic relating to accounting estimates. Update from 'amounts' to 'accounts' for understandability. Proposed characteristic on accounting estimates described in paragraph 44 of <b>Section II – Accounting Estimates</b>.</p>

*Additional Qualitative Characteristics for Consideration*

14. Respondents to the ED-ISA for LCE and Board Members at the June 2022 meeting, also suggested additional characteristics that may drive complexity as described in the table below:

Characteristic <sup>4</sup>	Task Force Considerations
Complex governance structure (e.g., external members, audit committee).	This was included in the Authority Supplemental Guide as a factor to consider when assessing complexity of oversight. The Task Force removed “Oversight” as a qualitative characteristic given that external members and audit committees are not always an indicator of complexity (e.g., they are common for public sector & not for profit entities). The Task Force is of the view that it is appropriate to continue addressing this in the Authority Supplemental Guide only. No change proposed.
Identification of events or conditions that may cast significant doubt (or a material uncertainty) on an entity’s ability to continue as a going concern.	This is common for some LCEs and would not always indicate or drive wider complexity. No change proposed.
Presence of internal audit function	While the presence of an internal audit function may suggest a more complex control or governance structure, the presence of an internal audit function may be mandated for certain jurisdictions or industry/entity types that would otherwise be considered an LCE. No change proposed.
Application of the applicable financial reporting framework to accounting matters that are contentious or highly subjective or transactions with complex accounting principles.	Relevant aspects addressed through new characteristic on application of financial reporting framework (per <b>Agenda Item 5-A</b> ).
Entities operating in more than one jurisdiction	See paragraph 56 explaining proposed changes to Authority to reflect qualitative characteristics relevant to group audits.
Entities trading or operating in more than one currency.	This may be routine and straightforward, particularly in certain jurisdictions. No change to the authority proposed but the Task Force will consider through examples in the Authority Supplemental Guide.

<sup>4</sup> Respondent’s suggestions for additional qualitative characteristics are included in [Supplement 2-11 to Agenda Item 6](#) previously presented at the June 2022 Board Meeting.

15. Respondents to the ED-ISA for LCE also suggested characteristics specific to the complexity of the audit (including the need for Engagement Quality Review, the need to use the work of an auditor's expert, the presence of significant risks or risks in relation to going concern, fraud or accounting estimates, and where an audit cannot be performed purely with substantive procedures). The Task Force continues to be of the view that, to avoid inappropriate behavior, the use of the proposed standard should be driven by the complexity of the entity and not that of the audit or by firm quality risks.

## Quantitative Thresholds

### *What We Heard*

16. As described in the [June Issues Paper](#), the Task Force considered respondents' suggestions to include quantitative thresholds in the Authority. While the Task Force noted complexity is not directly linked to size, it was acknowledged that the use of quantitative thresholds may serve as an additional 'safeguard' to limit the range of entities perceived to be within the scope of the proposed standard, in particular larger medium-sized entities that are likely to be more complex but may not already have been scoped out through the evaluation of qualitative characteristics. The Task Force is of the view that any thresholds should be in addition to the existing approach of using specifically prohibited entities and an evaluation of a set of qualitative characteristics to determine use of the proposed standard.
17. In June 2022, the Board generally supported the ability for jurisdictions to set thresholds but expressed mixed views about whether indicative or maximum values (or ranges) should be included in the Authority or supporting guidance. The Board directed the Task Force to further explore what quantitative threshold(s) could be used and how they could be included in the proposed standard or supporting guidance.

### *Role of the Jurisdiction*

18. Based on the feedback received from the Board, as well as from the jurisdictional / national auditing standard setters and the Reference Group, the Task Force proposes to:
  - (a) Continue to include the placeholder for quantitative thresholds in the Authority (as demonstrated in paragraph A.4. of **Agenda Item 5-A**). This would indicate an expectation that legislative or regulatory authorities or relevant local bodies with standard-setting authority will determine quantitative thresholds as relevant for their jurisdiction.
  - (b) Not include specific indicators (e.g., employee numbers, revenue, total assets) or corresponding values in the Authority, given these may vary widely by jurisdiction.
  - (c) Draft guidance to accompany the Authority which would assist jurisdictions in setting quantitative thresholds (see section below for the content of the proposed Authority Supplemental Guide).

*Proposed Content of the Authority Supplemental Guide*

19. The Task Force is of the view that supplemental guidance addressing quantitative thresholds may include:
- (a) Guidance on the role and responsibilities of legislative or regulatory authorities or relevant local bodies with standard-setting authority regarding the setting of quantitative thresholds.
  - (b) Guidance on the type of indicators that may be used when forming quantitative thresholds.
  - (c) Illustrative examples of thresholds that may be appropriate for different jurisdictions (e.g., an example of threshold(s) for a developing low-income jurisdiction and a corresponding example for a developed high-income country. This may include indicative values (e.g., employee numbers, revenue amount).
20. The Task Force considered whether a “range” or “ceiling” should be included in the guidance, and if so, if it should be presented as indicative only. If a range or ceiling was included, consideration would also need to be given to how such values may be presented.
21. To assist in the consideration, the Task Force deliberated how practical it would be to determine a value in a currency unit. The below table illustrates how a “micro”, “small” and “medium” entity is defined in a range of jurisdictions (with values translated into euros for comparability). While the definitions are used for different reasons than for determining the Authority of the LCE (e.g., they may drive the availability of grants or assistance, regulatory requirements, if an audit is required or what financial reporting framework may be used) they illustrate the range of what may be considered “small” in different jurisdictions. For instance, the revenue of what is defined as a small entity in the EU is 15 times higher than the equivalent for a services entity in Malaysia (€10,000,000 compared to €660,000).

Country	Number of Employees			Revenue, in millions (€)			Other <sup>5</sup> , in millions (€)		
	Micro	Small	Medium	Micro	Small	Medium	Micro	Small	Medium
EU <sup>6</sup>	< 10	< 50	< 250	≤ 2	≤ 10	≤ 50	≤ 2	≤ 10	≤ 43
Malaysia <sup>7</sup> (Manufacturing)	< 5	5 < 75	75 ≤ 200	< 0.066	0.066 < 3.3	3.3 ≤ 11	-	-	-
(Services and Other Sectors)	< 5	5 < 30	30 ≤ 75	< 0.066	0.066 < 0.66	0.66 ≤ 4.4	-	-	-
Egypt <sup>8</sup>	-	-	-	< 0.053	0.053 < 2.65	2.65 ≤ 10.6	-	-	-

<sup>5</sup> The EU uses “Balance Sheet Total”, and India uses “Investment in Plant & Machinery/equipment”.

<sup>6</sup> Source: [https://ec.europa.eu/growth/smes/sme-definition\\_en](https://ec.europa.eu/growth/smes/sme-definition_en)

<sup>7</sup> Source: <https://www.smecorp.gov.my/index.php/en/policies/2020-02-11-08-01-24/sme-definition>

<sup>8</sup> Source: <https://youssrysaleh.com/Investment-in-Egypt/egypt-new-law-regarding-the-development-of-medium-small-and-micro-enterprises/>

India <sup>9</sup>	-	-	-	≤ 0.65	≤ 6.5	≤ 32.5	≤ 0.13	≤ 1.3	≤ 6.5
South Africa <sup>10</sup>	< 10	< 50	< 250	0.29 ≤ 1.16	0.87 ≤ 4.64	2.03 ≤ 12.76	-	-	-

22. Taking into account the wide range of numerical value that would be needed in order to be suitable across jurisdictions, the Task Force concluded that determining one single range or ceiling for any one indicator would not be appropriate. Instead, the guidance could include an example of a developed nation, and an example of a developing nation, with illustrative ranges or ceilings presented for each.
23. In addition, the Task Force considered concerns from the Reference Group regarding certain entity types getting inappropriately “scoped out” when they otherwise would be an LCE (e.g., holding companies containing a large asset such as a piece of land) and the fact that some jurisdictions already determine different thresholds for different industries or sectors.<sup>11</sup> The Task Force is of the view that jurisdictions may set thresholds that vary by industry or entity type if appropriate, although noted that doing so would add additional effort and complexity for both the jurisdiction and the auditor applying the thresholds. The Task Force proposes to include in the Authority Supplemental Guide that this may be appropriate.

#### Matters for Board Consideration

1. The Board is asked whether they agree with the proposed changes to the Authority in **Agenda Item 5-A** and described in **Agenda Item 5-B** (excluding changes for group audits to be discussed in **Section III**), including:
  - (a) The update to the entities listed in paragraph A.1.; and
  - (b) The content and presentation of qualitative characteristics (paragraph A.3.).
  - (c) Updates to the introductory box and Essential Explanatory Material (EEM) throughout.
2. The Board is asked for their views on the development of supplemental guidance to assist in the setting of quantitative thresholds, including:
  - (a) The matters proposed for inclusion in paragraph 19 above;
  - (b) The Task Forces recommendation to not include one illustrative range or ceiling that would apply to all jurisdictions (i.e., to provide illustrative examples that may include indicative ranges instead);
  - (c) Any other matters that should be included in the guidance.

<sup>9</sup> Source: <https://msme.gov.in/know-about-msme>

<sup>10</sup> Source: [https://www.gov.za/sites/default/files/gcis\\_document/202205/46344gon2070.pdf](https://www.gov.za/sites/default/files/gcis_document/202205/46344gon2070.pdf)

<sup>11</sup> As illustrated in the table. This is consistent with analysis performed by the Edinburgh Group, [Growing the global economy through SMEs \(edinburgh-group.org\)](https://www.edinburgh-group.org) – discussion on page 8-9.

## Section II – Accounting Estimates

### What Makes an Accounting Estimate Complex?

#### *What We Heard from Respondents to ED-ISA for LCE*

24. In the Authority of ED-ISA for LCE, the qualitative characteristic describing complexity of accounting estimates (i.e., complexity that may make the standard inappropriate for use) was “*The entity’s accounting estimates are subject to a **higher degree of estimation uncertainty** or the measurement basis requires **complex methods** that may involve multiple sources of historical and forward-looking data or assumptions, with multiple interrelationships between them*”. The [Authority Supplemental Guide](#) included a table with further examples of what characteristics may and may not be commonly associated with an LCE.
25. Respondents to the ED-ISA for LCE provided views on the qualitative characteristics described in [Supplement 2-11 to Agenda Item 6 - June 2022 Board meeting](#)). Respondents noted that all accounting estimates have estimation uncertainty to some degree and it may be difficult to decide which accounting estimates have a ‘higher’ degree of estimation uncertainty or use complex methods, particularly given complexity is often in the “eye of the beholder” (i.e., what is complex to one auditor may not be deemed complex to another).
26. Respondents also noted that the features described in the qualitative characteristic (i.e., “higher degree of estimation uncertainty” or “complex methods”) are not defined in the ED-ISA for LCE and in order to assess when such a complexity is present, it would be useful for some type of ‘baseline’ to be established or for specific illustrative examples to be provided. In addition, respondents provided comments on the Authority Supplemental Guide, noting concerns regarding some of the factors presented, including questioning whether “Level 3” inputs (as defined in International Financial Reporting Standards) would always result in complexity that would prohibit the use of the proposed standard.
27. Below are examples of specific accounting estimates that were identified by respondents as commonly held by LCEs and where further clarity would be useful when determining complexity:
  - Impairment;
  - Goodwill, intangibles, or accounting for business combinations;
  - Foreign currency transactions;
  - Inventory provisions;
  - Stock-based compensation;
  - Percentage of completion accounting;
  - Livestock / agricultural assets;
  - Investment property; and
  - Defined benefit pensions plans.

### *Procedures for “More Complex” Accounting Estimates*

28. Respondents to the ED-ISA for LCE noted that even where the initial evaluation to use the standard was performed appropriately, areas of complexity (commonly relating to accounting estimates) may still be discovered, or occur unexpectedly during the audit. However, these areas of complexity may not be deemed pervasive to the complexity of the entity as a whole. Implementing the Authority as drafted in the ED-ISA for LCE, the auditor would need to transition to the ISAs, which was viewed as burdensome and may discourage the use of the standard (i.e., it was not “worth the risk” to use if they may have to transition to the ISAs mid-engagement). Respondents also noted that many entities that would otherwise meet all of the requirements to use the standard may have one, or a small number of accounting estimates, that could be considered complex as described under the Authority of the ED-ISA for LCE and provided examples.
29. A specific detailed example provided by respondents was a non-regulated private entity, without substantial businesses and/or operations, set up solely to hold an investment property accounted for using fair value with ‘Level 3’ inputs. Similar examples were noted where an entity does have simple operations but might still own one property or asset that uses an unobservable input. A further example provided during outreach was an entity that has simple operations but may hold some insignificant financial instruments that are valued using a model utilizing a long forecast period.
30. The Reference Group also provided the example of an entity that offers post-employment benefits (e.g., pension plan) with multiple ‘forward-looking’ assumptions that management must make (such as a discount factor and salary increase factor), but which are straightforward to determine their reasonableness, particularly when experts are used (see **Appendix 2** for detail).

### *What We Heard from the Board*

31. As described in the [June Issues Paper](#), the Task Force noted that a complex accounting estimate is not necessarily an indicator of complexity for the entity more broadly. It was also recognized by the Task Force that the “typical LCE” may have one or a small number of accounting estimates that may be “more complex” and it was suggested to further explore how the proposed standard could be revised to accommodate such accounting estimates where appropriate.
32. Board members questioned what type of “isolated” complex accounting estimates were commonly held by LCEs. Board Members also expressed concerns with potential misuse (i.e., the proposed standard may be used on entities that were complex). However, acknowledging the strong view from the respondents to the ED-ISA for LCE in this area, the Board asked the Task Force to further explore what type of accounting estimates may be more commonly held by a “typical LCE” and bring findings and further recommendations back to the Board for further discussion.

### *Way Forward*

33. Considering both the Board members’ views and the respondents’ views, the Task Force explored a way forward on this topic. Based on respondent feedback, the Task Force felt it was appropriate to first revisit the determination of what makes an accounting estimate “less complex” or “more complex”, particularly in the context of a typical LCE and the accounting estimates they hold. See **Appendix 3** for the Task Force’s view on what makes an accounting estimate more or less complex.

34. The Task Force is of the view that the factors most important in determining the complexity of an accounting estimate are the individual facts and circumstances (such as those described in **Appendix 3**) rather than the type of class of transaction, account balance or disclosures (e.g., depreciation, bad debt allowance). The Task Force is therefore of the view that the proposed ISA for LCE should not include a list of classes of transactions, account balances or disclosures that would preclude the auditor from using the standard.

#### How Should Accounting Estimates be Reflected in the Authority?

35. The Task Force extensively discussed how accounting estimates may be reflected in the Authority and agreed on the following key principles:
- Generally, it is not expected that a typical LCE (i.e., based on the evaluation of the qualitative characteristics in the revised Authority) would have accounting estimates that would fall in the 'red quadrant' in Figure 1 of **Appendix 3**.
  - Any evaluation of how "complex" an entity's accounting estimates are for the purposes of using the ISA for LCE should be easy to understand and implement.
36. The Task Force was of the view that the presence of a number of accounting estimates with higher estimation uncertainty, complexity or subjectivity would generally be reflective of the nature of the business or underlying business model. The Task Force noted the limitations included in the Authority for listed entities, or entities whose main function is to take deposits from, or to provide insurance to, the public were often those more likely to have the most complex accounting estimates (e.g., allowance for credit losses, complex financial instruments).
37. In addition, the Task Force was of the view that the evaluation of the other (i.e., "non-accounting estimate") qualitative characteristics would generally already limit the use of the standard for entities holding accounting estimates of the highest complexity. For example, an entity holding significant complex derivatives would be likely to have balances or disclosures in the financial statements that necessitate significant management judgment in applying the requirements of the financial reporting framework, and the entities business activities or model may give rise to a significant pervasive business risk (both qualitative characteristics proposed in the Authority at **Agenda Item 5-A**).
38. However, reflecting on concerns expressed previously by the Board regarding the scope of the proposed standard, and concerns over inappropriate use of the standard for LCE for complex entities, the Task Force concluded that a qualitative characteristic that explicitly addressed accounting estimates was needed.
39. Based on the above, the Task Force considered two possible ways forward:
- Option A: Use inherent risk factors as qualitative characteristics in the Authority (see paragraphs 40–42); and
  - Option B: Refine "accounting estimate specific" qualitative characteristic to be more practicable (see paragraphs 43–47).

*Option A: Use Inherent Risk Factors as Qualitative Characteristics in the Authority*

40. The Task Force considered if the facts and circumstances described in **Appendix 3** could be used as the basis for a framework for the assessment of complexity. In this case the Authority would include a qualitative characteristic describing accounting estimates that were not deemed complex based on the accounting estimate’s estimation uncertainty, complexity and subjectivity.
41. When considering all the inherent risk factors (i.e., all the characteristics relevant to “estimation uncertainty”, “complexity” and “subjectivity”), the Task Force recognizes that assessing complexity based on the facts and circumstances described in **Appendix 3** may be difficult to operationalize on an accounting estimate by accounting estimate basis, particularly given the evaluation for use of the proposed standard would be performed at the acceptance and continuance phase. For example:
- How should auditors evaluate the degree of the inherent risk factors taking into account the facts and circumstances of an individual accounting estimate? For example, will having one fact or circumstance that indicates a high degree of the inherent risk factor (e.g., one unobservable input), automatically drive the decision of the inherent risk factor being high?
  - If one of the inherent risk factors is considered high (e.g., estimation uncertainty) but the other risk factors are considered low (i.e., complexity and subjectivity), should the accounting estimate be considered “more complex”? What about if two risk factors are considered high?
  - Should the significance of the fact or circumstance to the accounting estimate be considered (e.g., if only one less significant input of many is unobservable)?
42. The Task Force concluded that it would not be practical for auditors to perform such a detailed analysis for every accounting estimate upfront to decide if the ISA for LCE could be used. Further, the auditor may not have all the information needed during the acceptance or continuance phase to perform this exercise.

*Option B: Refine “Accounting Estimate Specific” Qualitative Characteristic to be more Practical*

43. Respondents to ED-ISA for LCE noted that the Authority should be easy to understand and implement. Therefore, the Task Force is of the view that using more direct language from the table in **Appendix 3** (i.e., focusing on the methods or models, assumptions or data) will be more understandable to auditors than using the descriptions of the inherent risk factors (see option A). The Task Force also considered that using terminology that is widely used and understood would be easier for auditors to understand.
44. The Task Force therefore proposed the following qualitative characteristic:

The entity’s financial statements typically do not include accounting estimates that involve the use of complex methods or models, assumptions or data.”

45. This qualitative characteristic would be supported by guidance incorporating the key ideas from **Appendix 3**. The Task Force is of the view that the inclusion of the word “typically” makes it clear that the evaluation may be made on the overall nature and type of accounting estimates held by the entity at the time of the assessment, rather than requiring a detailed analysis of every accounting estimate that is held.

46. The Task Force is of the view that using the word “typically” will help to address respondents’ comments regarding isolated or “one-off” accounting estimates or transactions that do not otherwise increase the complexity of the entity as a whole. For example, an entity may enter into a single swap transaction to hedge the fluctuations of interest rates related to the debt for their building. If the other qualitative characteristics indicate that the entity is an LCE, the auditor may still determine it is appropriate to use the ISA for LCE as the swap is not typical to the entity or its transactions and is not contributing to the complexity of the entity as a whole. On the other hand, if the swap was related to their main business activities, for example to hedge the fluctuations of currency rate related to their exports this would be likely to be an indicator of complexity more pervasively and preclude the use of the standard.
47. The Task Force also believe this would help address respondents concerns regarding the need to transition from the ISA for LCE to the ISAs when additional matters and circumstances are discovered after the initial evaluation to use the ISA for LCE (e.g., for a one-off transaction that the entity has entered in to). In such a scenario, the auditor would need to consider if the entity is still an LCE, taking into account the limitations included in the Authority. However, there would be no need to “automatically” transition out of the ISA for LCE during the engagement because of the complexity specific to the accounting estimate. The Task Force did note that the presence of a new, or unexpectedly complex accounting estimate often reflects a significant change in the entity’s business model, so guidance would need to be clear regarding the need for a consideration where additional matters and circumstances are identified.

#### **What Requirements for Accounting Estimates Should Be Included in the Proposed ISA for LCE?**

48. The requirements for accounting estimates included in ED-ISA for LCE were based on ISA 540 (Revised)<sup>12</sup> Specific procedures in relation to the use of complex modelling and detailed requirements to address situations where there is higher estimation uncertainty were not included as they were not expected to be relevant for the types of accounting estimates in an audit of a typical LCE.
49. As described above, the Task Force is of the view that the “most complex” accounting estimates (i.e., those with high estimation uncertainty, high subjectivity and high complexity) would typically not be present in an entity that otherwise meets the criteria for the ISA for LCE based on the Authority. The Task Force does recognize that, based on the qualitative characteristic proposed at paragraph 44 there may be isolated instances where more complex accounting estimates may be present that would not otherwise be scoped out through the limitations included in the Authority.
50. To address this, the Task Force proposes to further review ISA 540 (Revised) to evaluate any additional requirements that should be included and incorporate these within the existing parts (i.e., not as a separate part specifically for “complex accounting estimates” as proposed in the June Board Meeting). This will ensure that the requirements are comprehensive in enabling the auditor to obtain sufficient appropriate audit evidence with respect to accounting estimates. The Task Force is of the view that splitting procedures for accounting estimates into two parts in the proposed standard would be confusing for auditors (i.e., they would need to identify which “part” they should use) and so may result in inconsistent application.

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<sup>12</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

51. In addition, the Task Force believes that additional guidance surrounding the consideration of accounting estimates in the “stand-back” at Part 6 should be added (i.e., to remind auditors to consider whether the presence of “more complex” accounting estimates indicates that the entity is not an LCE).

#### **Matters for Board Consideration**

3. The Board is asked for their views on the Task Force’s proposals about how to reflect accounting estimates in the Authority.
4. The Board is asked for their views on the Task Force’s proposals about the way forward on which requirements for accounting estimates should be included in the proposed ISA for LCE

### **Section III – Group Audits**

#### **Introduction**

##### *What We Heard in June*

52. Based on the feedback received on ED-ISA for LCE, the Board supported the Task Force’s recommendation to explore including procedures for audits of less complex groups in the scope of the proposed standard.
53. The Board provided direction on the type of group audits that should be in scope, including agreeing with the principle that a less complex group would also need to “meet” the requirements of a less complex entity. The Board also provided some additional group-specific qualitative characteristics that may be considered, including groups operating in multiple jurisdictions or with different laws or regulations, or where a group has multiple owners. The Board had mixed views on whether the involvement of component auditors should always be an indicator of complexity in a group (as described further in paragraph 59).

#### **The Incorporation of Group Audits in the Authority of the Standard**

54. Given the Board supported the Task Force’s suggestion that the characteristics of a less complex entity would also apply to a less complex group but with some additional “group-specific” characteristics to consider, the Task Force proposes to incorporate specific considerations relating to groups into the existing Authority of the proposed standard (i.e., rather than in a separate “group-specific” part). The Task Force was of the view that it would be easier for stakeholders to have all relevant considerations for determining use of the standard in the same place.
55. However, in order to clearly distinguish the scoping considerations that only relate to group audits, the Task Force is of the view that the “group-specific characteristics” should be clearly separated from the “entity-specific characteristics” through, for example shading in a different color. It is envisaged by the Task Force that, in the [IAASB’s e-Handbook](#), it may be appropriate to include a functionality to opt to “filter-out” the content that only relates to group audits. The presentation of the proposed standard in its electronic form will be explored further by Staff and the Task Force as the project progresses.

56. **Agenda Item 5-A** contains initial proposed edits to the Authority in order to incorporate group audits. **Agenda Item 5-B** describes the significant changes to **Agenda Item 5-A**, which includes additional qualitative characteristics specific to group audits as explained below:

Characteristic	Explanation
<i>Included in <a href="#">June Issues Paper</a>:</i>	
The group has few entities or business units (e.g., 5 or less).	As included in paragraph 197 of <a href="#">June Issues Paper</a> . Quantitative indicator included to be consistent with other qualitative characteristics where the term “few” is used.
The group has a simple consolidation process (e.g., no complex sub-consolidations, simple aggregation/consolidation adjustments, non-complex intercompany transactions).	As included in paragraph 197 of <a href="#">June Issues Paper</a> .
<i>Additional Characteristics included in <b>Agenda Item 5-A</b>:</i>	
Group entities or business units are limited to few jurisdictions or geographical locations (e.g., 5 or less).	There may be additional complexities with obtaining sufficient appropriate audit evidence in a group audit when components are located in jurisdictions or geographic locations other than the group auditor because of cultural and language differences, and different laws or regulations (consistent with paragraphs A35 and A93 of ISA 600 (Revised)). These complexities would not be consistent with a typical LCE.
Management can provide access to all information and people within the group relevant to the preparation of the group financial statements.	Indicator of complexity identified through review of requirements from ISA 600 (Revised) ( <b>Agenda Item 5-C</b> , paragraph 20 and 21).
Financial information of all entities or business units have been prepared in accordance with the same accounting policies applied to the group financial statements.	Indicator of complexity identified through review of requirements from ISA 600 (Revised) ( <b>Agenda Item 5-C</b> , paragraph 39).
All entities or business units have the same financial reporting period-end as that used for group financial reporting.	Indicator of complexity identified through review of requirements from ISA 600 (Revised) ( <b>Agenda Item 5-C</b> , paragraph 40).

57. The Task Force propose that the Authority Supplemental Guide would include further guidance and examples to explain characteristics as relevant. For example, guidance would be provided to explain how to interpret terms such as “geographical locations” and “complex sub-consolidations”.

**Use of Component Auditors**

58. As described in the [June Issues Paper](#), the Task Force extensively debated whether the involvement of component auditors was always an indicator of complexity in a group, and if their involvement should preclude the use of the proposed standard. The Task Force concluded that the decision to use component auditors was often driven by complexity in the group itself, but that it was not always the case.
59. During the June 2022 meeting, the Board had mixed views about whether the use of component auditors should prohibit the use of the proposed standard. Some Board members acknowledged that the use of a component auditor is not always a driver for complexity and that the underlying reason for using a component auditor might need to be explored. Other Board members were of the view that the use of component auditors should prohibit the use of the proposed standard as the need or circumstances for their use indicated complexity that was not consistent with a typical less complex entity.
60. The Task Force considered the views expressed by the Board and extensively discussed if component auditors should be included in the scope of the proposed ISA for LCE. Below are the Task Forces views on the key advantages to excluding or including the use of component auditors in the scope of the proposed standard:

Advantages to Excluding the Use of Component Auditors	Advantages to Including the Use of Component Auditors
More consistent with the nature and circumstances of a typical less complex group.	Exclusion may encourage auditors not to use component auditors when it may be appropriate to do so.
Often component auditors are used in more complex groups.	May scope out entities that are otherwise less complex. Component auditors can also be used in audits of LCEs.
Excluding component auditors would allow for a clear-cut off about whether you can use the standard or not. Also, it would be easier to understand and apply (no judgement is involved).	Consistent with overall approach of allowing the use of professional judgment when evaluating complexity for determining appropriate use of the standard.
It would make the standard more concise and easier to use as there would be less requirements and EEM.	Exclusion may limit use of the standard, particularly by firms or practitioners that regularly use component auditors.

<p>The use of component auditors increases the complexity of the audit more generally (e.g., through an increased level of direction, supervision and review).</p>	<p>Consistent with the overall approach that the use of the standard should be driven by the complexity of the entity and not that of the audit or by firm quality risks.</p>
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61. The Task Force also considered common situations where the engagement team may include individuals from another firm when auditing an LCE and concluded that it would often relate to the attendance of a physical inventory count or the inspection of property, plant and equipment. The Task Force was of the view that the involvement of individuals from another firm may still be possible (e.g., to attend a physical inventory count or inspect property, plant and equipment), since these situations would still be addressed by the requirements for engagement quality management in the proposed ISA for LCE.
62. Taking into account the above, the Task Force leaned on balance towards excluding the use of component auditors from the scope of the proposed ISA for LCE, recognizing the overall pervasive theme heard from respondents of ED-ISA for LCE that the scope of the proposed standard should better reflect the typical LCE for which the standard is intended to be designed for.
63. The Task Force was of the view that component auditors are more commonly involved in audits that are relatively more complex (e.g., a larger number of entities or business units in different geographical locations or jurisdictions, or which exhibit other indicators of complexity as contemplated in the qualitative characteristics described in paragraph 56 above). The Task Force also took into account the enhanced focus on a “typical LCE” in the Authority and the concerns that stakeholders had about the scope of the proposed standard.
64. Given the mixed views (within the Board and in the detailed comments from respondents), the Task Force did have the view that it would still be helpful to include procedures for component auditors in the initial analysis of requirements and drafting of Part 10 (as further discussed in paragraphs 65-70 below), in order for the Board to be able to see the potential impact of the inclusion of component auditors.

#### **Review of Requirements in ISA 600 (Revised)**

65. The Task Force performed a detailed review of the requirements in ISA 600 (Revised) in order to consider which requirements may be considered as a starting point, or basis, for developing procedures relevant for a less complex group. This analysis is presented in **Agenda Item 5-C** and lists the requirements included in ISA 600 (Revised) and illustrates the Task Force’s evaluation regarding whether each requirement is relevant for an LCE and if they should be included in the new part for group audits.
66. During this review the Task Force identified a number of requirements in ISA 600 (Revised) which were consistent with requirements included in other Parts (for example paragraph 19 of ISA 600 (Revised) and paragraph 4.3.1. of ED-ISA for LCE). In situations where the requirements were consistent other than terminology (i.e., “the *group* auditor shall obtain agreement of *group* management” compared to “the auditor shall obtain agreement of management”) and it was not deemed necessary to include any further incremental requirements or guidance for a less complex group, the Task Force had the view that it was not necessary to include the requirement in Part 10. Consistent with ISA 600 (Revised), the Task Force propose to include wording in the introductory

box to Part 10 to explain that the requirements and guidance in the Part refer to or expand on the application of other parts of the ISA for LCE relevant to a group audit.

### Drafting of Part 10, Audits of Group Financial Statements

67. Based on the analysis at **Agenda Item 5-C**, the Task Force has drafted the requirements that may be included in Part 10 as presented in **Agenda Item 5-D**. This drafting contains requirements and limited EEM as identified for inclusion through the review of ISA 600 (Revised) requirements. This drafting does not yet contain EEM identified through a review of the application material included in ISA 600 (Revised) or otherwise deemed as necessary for inclusion, to support the requirements.
68. The Task Force proposes to incorporate the use of tables in order to present specific communication requirements, given the positive feedback received on the use of tables in Part 9 of the ED-ISA for LCE, and respondents' encouragement to use a similar presentation of requirements elsewhere where appropriate (as described in the [June Issues Paper](#)).
69. Should it be decided that component auditors would be included in the scope of the proposed standard, the Task Force proposed to keep requirements specific to the use of component auditors clearly distinguished (e.g., through shading) and together where appropriate. This would help make the presentation of the Part clearer for entities that do not use component auditors (i.e., so auditors would be able to see only the requirements relevant to them).
70. The Task Force also considered what revisions may need to be made in the other Parts of the draft standard in order to reflect the inclusion of group audits. The Task Force had the view that it would be necessary to include references in relevant places in the proposed standard for the auditor to consider if the audit is an audit of group financial statements. In addition, references may be utilized to inform auditors that special considerations for group audits are included in Part 10. This will be explored further by the Task Force as revisions to the proposed standard progress.

#### Matters for Board Consideration

5. The Board is asked if they agree with the proposed changes to the Authority to incorporate considerations relating to group audits (presented in **Agenda Item 5-A**) and if further changes are required, including for any additional qualitative characteristics.
6. The Board is asked if requirements for the use of component auditors should be excluded from the scope of the proposed standard, and thus a specific limitation incorporated into the Authority of the standard.
7. The Board is asked for views on the drafting of Part 10 as set out in **Agenda Item 5-D**, including key areas where EEM would be appropriate.

## Section IV – Approach to Proportionate Requirements for LCEs

### What We Heard

71. As presented in section III of the [June Issues Paper](#), a theme frequently raised by respondents to ED-ISA for LCE was that the proposed standard needed to be further differentiated from the ISAs. Respondents noted that the content of ED-ISA for LCE was so closely aligned with the requirements of the ISAs that there was little difference, and therefore benefit, to using the proposed standard.

Respondents encouraged the IAASB to further consider how requirements apply the principles of scalability and proportionality appropriate to the typical nature and circumstances of an LCE, especially in the following areas:

- Risk identification and assessment, including the understanding of the entity's system of internal control (i.e., Part 6 of the proposed standard).
- Accounting estimates.
- Responsibilities for quality management.
- Documentation requirements.

72. For example, respondents noted (in relation to auditor's understanding of the components of the entity's system of internal control) that the granularity of the requirements included in ED-ISA for LCE would drive detailed documentation that was not necessary for a typical LCE with a simpler control environment and less formalized controls.
73. Prior to the June 2022 meeting, the Task Force broadly discussed how the requirements within these identified areas could be revised to make them more focused on the typical circumstances of an LCE, while differentiating the requirements within the proposed standard from the corresponding requirements within the ISAs. The Task Force agreed that for the identified areas, consideration could be given to writing the requirements in a manner that would achieve a similar outcome, but without the granularity needed for more complex circumstances not appropriate for a typical LCE.
74. The Board directed the Task Force to continue to explore the proposed approach to further differentiating the proposed standard from the ISAs, focusing on specific targeted areas, but taking into account the objective of developing a standard that would result in a high-quality audit that would obtain reasonable assurance.

### Guiding Drafting Principles

75. In addressing the concerns raised, the Task Force considered the key drafting principles of the ISA for LCE outlined in paragraph 72 of the [Explanatory Memorandum accompany ED-ISA for LCE](#):

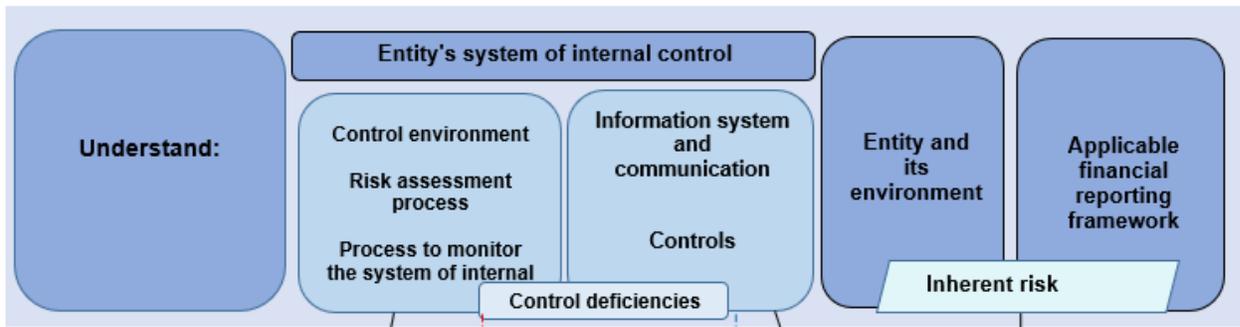
*Consistent with an audit conducted in accordance with the ISAs, the intended outcome from using ED-ISA for LCE is an audit opinion resulting for a quality audit engagement that would enhance the credibility of the financial statements for the users thereof. The basis for the design of ED-ISA for LCE to achieve this outcome is a separate standard for an audit of the financial statements of an LCE that:*

- (i) Is proportionate to the nature and circumstances that would be typical of an audit of a less complex entity (as contemplated in the Authority).*
- (ii) Can be used effectively and efficiently in those typical circumstances to obtain sufficient appropriate audit evidence to support a reasonable assurance audit opinion.*
- (iii) Utilizes a risk-based approach to an audit, with requirements that are principles-based, so that the proposed standard can be applied to less complex entities with a wide range of circumstances and across sectors or industries.*

76. The Task Force also considered the IAASB Complexity, Understandability, Scalability and Proportionality (CUSP) – Drafting Principles and Guidelines, particularly paragraph 9.1.5. This paragraph states that principles-based standards means that the requirements are primarily written in terms of principles or outcomes rather than procedures or steps, which allow the auditor to apply professional judgment in planning and performing the audit.

### Exploring Drafting Approaches

77. The Task Force selected the *Understanding Relevant Aspects of the Entity* section from Part 6 of the proposed ISA for LCE to explore drafting approaches. This section of Part 6 was highlighted by respondents as an area where revisions should be targeted.



78. The Task Force considered some high-level approaches that could be taken when reviewing requirements identified as needing potential revision by respondents (these approaches are not mutually exclusive options), for example, the Task Force could:
- Revise the requirement to be more focused on the outcome that is appropriate for a typical LCE (i.e., high-level what the auditor needs to do and why, without including granularity on what needs to be performed or understood).
  - Retain existing granularity of the requirement but consider if all matters would be relevant for a typical LCE.
  - Present the requirement in a table format outlining intended outcome and what needs to be performed or understood.
  - Some combination of the above.
79. The Task Force then reviewed targeted requirements and discussed what approach could be taken when considering targeted revisions to a requirement. Key questions that the Task Force considered included:
- Has the requirement been identified as a specific “pain-point” requiring revision by respondents and if so, why did respondents not think it would be appropriate for a typical LCE?
  - Are all the matters addressed in the requirement relevant to a typical LCE? The Task Force took into account the proposed revisions to the Authority of the ISA for LCE proposed since the ED-ISA for LCE).

- (c) Would every matter in a requirement always needed to be understood and documented to achieve the desired outcome or could some matters be areas that could be considered (i.e., listed as items to consider in EEM) depending on its relevance to the entity and audit?

### Initial Illustrative Drafting for Discussion

80. When performing the above exercise, the Task Force noted there is no “one-size fits all” approach given the nature and content of each requirement and how it may be relevant to a typical LCE. Therefore, the Task Force has presented illustrative drafting for a number of requirements<sup>13</sup> at **Agenda Item 5-E**.
81. The goal of this illustrative drafting is to demonstrate the approach the Task Force took and is not intended to prompt a detailed discussion of the content. The Task Force intends to bring to the Board a full revised draft of Part 6, along with a detailed analysis of respondent’s comments, in December 2022 using the general direction received from the board in September 2022 on the approach.
82. Detailed considerations relating to some of the proposed revisions are described below:

#### *Understand the Entity and Its Environment* (Paragraph 6.3.1. of **Agenda Item 5-E**)

- (a) Respondents noted that more conditionality could be included in paragraph 6.3.1. Respondents noted that paragraph 6.3.1.(f) is normally performed in fieldwork (not as part of risk assessment procedures) and that both paragraphs 6.3.1.(e) and (f) appear to be more relevant for complex entities. Comments also noted that ‘other external factors’ in paragraph 6.3.1.(b) was vague.
- (b) The Task Force considered if all matters in this requirement were generally relevant to a typical LCE. For example, the Task Force considered if the granularity of the requirement to understand how the entity’s financial performance is measured needed to specify both internally and externally (given the measurement of performance externally is generally not relevant to a typical LCE) and proposed a revision to make this less granular.
- (c) The Task Force is of the view that ‘changes in current asset valuations’ in paragraph 6.3.1.(f) would be addressed through paragraph 6.3.1.(e) relating to events or conditions that may give rise to changes in accounting estimates and therefore proposes removing.’ The Task Force proposes additional EEM to explain 6.3.1(b) based on respondent feedback (using application material from ISA 315 (Revised 201). The Task Force also proposes to move the content in paragraph 6.3.1.(f) (that describes *how* the requirement may be performed) to EEM to be more consistent with the concept of principle-based drafting. Similarly reference to how the entity uses IT in its business model was removed to EEM.
- (d) The Task Force considered if the requirement could be revised to reduce further granularity (e.g., the full list of specific matters at 6.3.1.(a)–(f) could be moved to EEM) but after substantial deliberation concluded that generally all the remaining matters included should be understood and documented in order to meet the objective (i.e., to identify and assess the risks of material misstatement and plan the audit). In conclusion, the Task Force has the view that the

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<sup>13</sup> Only certain paragraphs in Part 6.3 of ED-ISA for LCE were considered by the Task Force when performing this exercise. Requirements and EEM highlighted in grey at **Agenda Item 5-E** is yet to be considered by the Task Force for future revisions.

requirement at paragraph 6.3.1. of ED-ISA for LCE is largely proportionate to the typical matters and circumstances of an LCE so proposed revisions are limited.

*Understanding the Control Environment* (Paragraph 6.3.6. of **Agenda Item 5-E**)

- (e) The Task Force considered if paragraph 6.3.6. of **Agenda Item 5-E** could be a part of a combined requirement relating to indirect controls. However, the Task Force is of the view that the control environment is an important foundation for the auditor's understanding of the other components of the system of internal control, and so should be presented on its own. The Task Force added subheadings for 'indirect' and 'direct' controls in this section as this would be helpful and easily understood by auditors, and noted further EEM could be added to explain these terms.
- (f) The Task Force discussed the verb 'evaluate' in paragraph 6.3.6. in the context of the requirement and its intended outcome. After also reviewing the [CUSP Drafting Principles & Guidelines](#) the Task Force is of the view that 'consider' more appropriately reflects the work effort required from the auditor in the circumstances contemplated for a typical LCE (i.e., an active reflection about relevant matters in the circumstances). Where the control environment does not provide an appropriate foundation for the other components of the internal control system, a risk of material misstatement may be identified, or a deficiency is identified in the entity's internal control system (as addressed in other requirements in the Part).
- (g) The Task Force proposes that the detailed list of what may be understood to achieve the outcome (i.e., 6.3.6.(a) – (d)) could be presented as EEM as not all matters in the requirement would always be relevant for a typical LCE. The Task Force has the view that including them in EEM would still trigger the auditor to consider the matter but alleviate the perceived need to provide detailed documentation for all of them where not relevant.

*Understanding the Risk Assessment Process & Process to Monitor System of Internal Control*  
(Paragraphs 6.3.7.–6.3.8. of **Agenda Item 5-E**)

- (h) The Task Force considered whether the requirements could be combined but concluded that the 5 components of the system of internal control are well understood and accepted. Also, all the components are relevant but the key consideration is their operationalization in the circumstances of a typical LCE. The Task Force has the view that some of the granularity of the requirements is not needed in a typical LCE and could instead be presented in the EEM.
- (i) The Task Force noted that paragraphs 6.3.7. and 6.3.8. of **Agenda Item 5-E** were identified as significant areas of concern by respondents when considering a typical LCE. Respondents to ED-ISA for LCE suggested these requirements should be removed or made more appropriate as a typical LCE is unlikely to have a formal risk assessment process. Based on this, the Task Force proposes to refer to '(formalized or not)' in the requirement addressing the risk assessment process and to revise EEM to clarify that the consideration is in the context of what is appropriate to the nature and circumstances of the entity.
- (j) Respondents to ED-ISA for LCE questioned if the verb "evaluate" was appropriate for this requirement, or if an understanding would be sufficient. The Task Force has the view that "understand" would be more appropriate given the other requirements included in the Part to

identify risks of material misstatement and deficiencies in internal control would address the key outcome of the procedure (i.e., what the auditor will do with their understanding).

*Understanding the Information System and Communication (Paragraphs 6.3.9. and 6.3.11. of **Agenda Item 5-E**)*

- (k) The Task Force considered respondents comments that the requirements in paragraphs 6.3.9. and 6.3.11. could be simplified to better reflect the nature and circumstances of a typical LCE. The Task Force is of the view that the granularity of what should be understood is not necessary for a typical LCE given the intended outcome of the understanding (i.e., assessing if the information system and communication appropriately supports the preparation of the entity's financial statements in accordance with the applicable financial reporting framework as described in paragraph 6.3.11.). The Task Force proposes that instead, these elements (i.e., 6.3.9 (a) – (b) could be included within the related EEM for paragraph 6.3.11.
- (l) The Task Force also proposes, that consistent with the understanding of the entity's risk assessment process & process to monitor the entity's system of internal control discussed above, "consider" would be a more appropriate work effort verb than "evaluate" when considering a typical LCE and their system of internal control.

*Understanding Controls (Paragraph 6.3.14. of **Agenda Item 5-E**)*

- (m) The Task Force has the view that paragraph 6.3.14. was generally applicable and proportional to the typical nature and circumstances of an LCE (which was consistent with respondents' comments to ED-ISA for LCE). The Task Force is of the view that the presentation of the paragraph could be simplified by incorporating design and implementation into the lead in rather than as a hanging paragraph.
- (n) With regard to paragraph 6.3.14.(d) the Task Force noted that in many cases the controls to which this requirement is targeted would be less likely to exist in a typical LCE. Therefore the Task Force proposes to delete this aspect of the auditor's understanding of the control activities component, with the overriding notion that an auditor is always able to use judgment to do "more" than what is required by the proposed standard. The Task Force also had the view that some granularity in paragraph 6.3.14.(f) may be removed in order to be consistent with the concept of principles-based drafting.

**Way Forward**

- 83. The Task Force will further progress drafting of targeted areas based on the general principles discussed in the paper and related input from the Board.

### Matters for Board Consideration

8. The Board is asked for their views on the Task Force's proposed approach to potential revisions in targeted areas identified by respondents to ED-ISA for LCE.

### Section V – Next Steps

84. As presented in **Appendix 4** the Task Force will continue to analyze the responses to questions included in the EM that have not been discussed with the Board and bring them for discussion with the Board at an appropriate time based on their significance and the timing of related drafting.
85. The Task Force intends to use the direction provided during the June and September Board meetings to commence the drafting of updates in targeted areas identified as in need of more significant revisions (e.g., the Authority, risk identification and assessment (Part 6 of ED-ISA for LCE) and requirements relating to accounting estimates).
86. The Task Force also intends to provide the Board with a full draft of Part 10, *Audits of Group Financial Statements* in December 2022, with the intention to approve the Part for public exposure in March 2023.

## **The Task Force Members and Activities**

### **The Task Force Members**

1. The Task Force consists of the following members:
  - Kai Morten Hagen, IAASB Member, Task Force Chair and IFAC Small and Medium Practitioners Advisory Group Liaison
  - Julie Corden, IAASB Member
  - Chun Wee Chiew, IAASB Member
  - Sachiko Kai, IAASB Member
  - Vivienne Bauer, IAASB Technical Advisor
2. Further information and all posted documents relating to this project can be found [here](#).

### **The Task Force Activities Since the June 2022 IAASB Meeting**

3. The Task Force held one hybrid meeting and two virtual meetings.

### **Outreach Since the June 2022 IAASB Meeting**

4. The Task Force Chair or Staff attended the following outreach events or meetings in which the proposed ISA for LCE was discussed:
  - Meeting with the Reference Group (a summary of discussions can be found at **Appendix 2**).
  - Meeting with the Chair of the International Forum of Independent Audit Regulators' (IFIAR) Standards Coordination Working Group (SCWG) in July 2022
  - Meeting with IFIAR's SCWG in July 2022.

## Appendix 2

### Summary of Discussion with LCE Reference Group: June 2022

The objective of the June 2022 session with the Reference Group was to provide a brief summary of key feedback received on the ED-ISA for LCE and the direction received from the Board in the June IAASB Meeting and then ask for input on targeted areas.

Paragraph references relate to paragraphs from the [June Issues Paper](#).

1. The description of a “typical LCE” as described in paragraph 63 and how it may be incorporated into the Authority of the proposed standard. In addition, whether to include quantitative threshold(s) and if so, how they may be incorporated into the Authority or supplemental guidance.

#### **The Reference Group Comments:**

The Reference Group noted overall agreement with the descriptors used to describe a typical LCE but shared concerns regarding the quantitative indicators included. In particular, the Reference Group expressed concern with the number of individuals on the management team (5) and the number of employees in the entity (250). They stated these numbers seem arbitrary and are likely to differ vastly across different countries and entity types and do not always equate to complexity.

With regard quantitative thresholds, the Reference Group noted concern with a jurisdiction setting a quantitative threshold using a measure such as revenue or net assets. They noted that small and simple holding companies may grow their assets and revenue quickly but are otherwise simple in nature. These companies make revenue and net assets challenging quantitative measures.

To address these concerns, members of the Reference Group recommended that the proposed standard continue to focus more on the qualitative nature of the entity, and more specifically, how the auditor will determine whether the characteristics of the entity may result in a complex audit.

Other matters that the Reference Group noted for the Task Force to consider were as follows:

- To reconsider describing the factors of a “less complex audit” as opposed to a “less complex entity”.
- To consider how the description of “entity’s business activities, business model & industry” may affect regulated industries, such as those in Hong Kong.
- To clarify what is meant by “few amounts or disclosures” in the description of a typical LCE.

2. Examples of accounting estimates that are commonly held by LCEs, including those that are deemed less complex and those that may be “more complex” but not deemed to be pervasive to the complexity of the entity as a whole.

#### **The Reference Group Comments:**

In answering this question, the Reference Group indicated that the determination whether the auditor would have to rely on an expert should be considered when determining whether an accounting estimate is or is not complex. In addition, the Reference Group encouraged the Task Force to consider further how the method or assumptions used could affect complexity. The Reference Group provided a few examples to explain these points as detailed below:

- Postemployment benefits, like pension plans, will have various assumptions that management has to make, such as a discount factor and salary increase factor, however it is not a complex accounting estimate. The auditor can ‘easily’ perform procedures to confirm that the calculation was done properly, and that the assumptions are reasonable, meaning the audit may still be less complex.
- Companies with financial instruments have straightforward products but require special auditing skills making these entities more complex than they initially seem.
- Accounting estimates for expected credit losses might be very complex but only relate to specific aspects of the company, making it relatively easy to get an expert to handle these issues, but follow through the rest of the audit as a typical LCE.

Despite these examples, the Reference Group also noted that it is important to ensure characteristics do not deter auditors from making the wrong choice in order to stay within the scope of the standard (e.g., not using an expert when they should be). Rather, auditors should evaluate the issue and determine whether it is something that they have the competence and capability to do themselves. When it is needed to reach out to experts outside of the engagement team, this may make the audit more complex.

3. The characteristics that would be relevant for describing a less complex group (for the purposes of the Authority of the proposed standard) in addition to those described in paragraph 197. Also, any examples of how component auditors can be used in an audit of a less complex group.

**The Reference Group Comments:**

There was overall support for the inclusion of group audits in the proposed standard as often groups can be less complex. For example, it is common to have a holding company and a manufacturing company as a group for tax purposes. Just because the entity splits out for tax purposes, that does not mean that it should necessarily be excluded from the standard as well. Rather, the Reference Group suggested complexity should be determined based on when the auditor would have to rely on someone else’s work. In many cases, the finance team will be in one location, despite the various groups that might be present, so even if the groups cross borders, the whole audit can be done in one location. Another aspect that the Reference Group asked the Task Force to consider was issues in relation to consolidation. When consolidating less complex entities together and the consolidation is complicated with issues such as hyperinflation, change in group structure, etc., the audit becomes complex.

4. Any other direction or input on topics in this paper that will help the Task Force move forward as they progress revisions to the proposed standard (including any other relevant examples).

**The Reference Group Comments:**

The Reference Group had two other comments they would like the Task Force to consider.

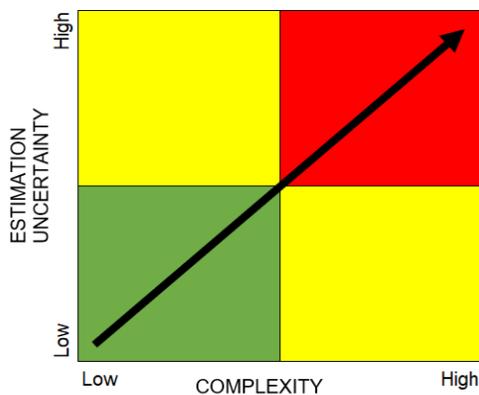
- To consider the difference between the level of work needed on an LCE audit and an audit of a listed company or regulated entity.
- To consider how the audit work will differ in the audit of an LCE in terms of the procedures that an auditor will follow to reach reasonable assurance.

## Appendix 3

### What Makes an Accounting Estimate “More or Less Complex”

1. Accounting estimates vary widely in nature, and the complexity of accounting estimates are subject to, or affected by inherent risk factors such as estimation uncertainty,<sup>14</sup> complexity<sup>15</sup> or subjectivity.<sup>16</sup> Appendix 1 of ISA 540 (Revised) describes these terms, and the interaction among them, in more detail.
2. The implications of the inherent risk factors of complexity and estimation uncertainty on the complexity of accounting estimates are illustrated in Figure 1 below.<sup>17</sup> For simplicity, Figure 1 only includes the inherent risk factors of complexity and estimation uncertainty. The complexity is highest in the top right corner as there is a combination of high estimation uncertainty, and high complexity (e.g., such as expected credit losses, or more complex insurance contract liabilities). Conversely the lower left corner represents accounting estimates where there is a lower complexity because there is low estimation uncertainty and complexity. (e.g., such as straight-line depreciation of short-term tangible fixed assets).

**Figure 1: Estimation Uncertainty and Complexity**



<sup>14</sup> Estimation uncertainty is the susceptibility to an inherent lack of precision in measurement. It arises when the required monetary amount for a financial statement item that is recognized or disclosed in the financial statements cannot be measured with precision through direct observation of the cost or price.

<sup>15</sup> Complexity is the inherent complexity in the process of making an accounting estimate, before consideration of controls, which gives rise to inherent risk. Complexity may arise when:

- There are many valuation attributes with many or non-linear relationships between them.
- Determining appropriate values for one or more valuation attributes requires multiple data sets.
- More assumptions are required in making the accounting estimate, or when there are correlations between the required assumptions.
- The data used is inherently difficult to identify, capture, access or understand.

<sup>16</sup> Subjectivity (i.e., the subjectivity inherent in the process of making an accounting estimate, before consideration of controls) reflects inherent limitations in the knowledge or data reasonably available about valuation attributes.

<sup>17</sup> A figure similar to this one was presented to the Board in [Agenda Item 4-A](#) of the March 2016 Board meeting

**Facts and Circumstances that Affect the Degree of “Estimation Uncertainty”, “Complexity” and “Subjectivity”**

3. Below are examples of facts and circumstances that affect the degree of “estimation uncertainty”, “complexity” and “subjectivity”. The examples are based on the matters included in paragraphs A72–A78 and Appendix 1 of ISA 540 (Revised). The examples show how the facts and circumstances affect the low degree vs high degree of “estimation uncertainty”, “complexity” and “subjectivity” respectively.

*Estimation Uncertainty*

Low	High
<ul style="list-style-type: none"> <li>• Market information available to obtain readily available and reliable inputs.</li> </ul>	<ul style="list-style-type: none"> <li>• Use of unobservable inputs.</li> </ul>
<ul style="list-style-type: none"> <li>• Assumptions with a short forecast period.</li> </ul>	<ul style="list-style-type: none"> <li>• Assumptions with a long forecast period.</li> </ul>
<ul style="list-style-type: none"> <li>• Assumptions that are straightforward.</li> </ul>	<ul style="list-style-type: none"> <li>• Assumptions that are difficult for management to develop.</li> </ul>
<ul style="list-style-type: none"> <li>• Use of limited assumptions.</li> </ul>	<ul style="list-style-type: none"> <li>• Use of various assumptions that are interrelated.</li> </ul>
<ul style="list-style-type: none"> <li>• Practicable to make a precise and reliable prediction about the future realization of a past transaction.</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult to make a precise and reliable prediction about the future realization of a past transaction.</li> </ul>
<ul style="list-style-type: none"> <li>• Practicable to make a precise and reliable prediction about the incidence and impact of future events or conditions.</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult to make a precise and reliable prediction about the incidence and impact of future events or conditions.</li> </ul>
<ul style="list-style-type: none"> <li>• Practicable to obtain precise and complete information about a present condition.</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult to obtain precise and complete information about a present condition.</li> </ul>

*Complexity*

Low	High
<ul style="list-style-type: none"> <li>• Specialized skills or knowledge not required.</li> </ul>	<ul style="list-style-type: none"> <li>• Use of specialized skills or knowledge, for example in relation to:                             <ul style="list-style-type: none"> <li>○ Valuation concepts and techniques</li> <li>○ The underlying valuation attributes</li> <li>○ Identifying appropriate sources of data</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• Use of a model externally developed and commonly used.</li> </ul>	<ul style="list-style-type: none"> <li>• Use of a model developed internally by a management having relatively little experience in doing so.</li> </ul>

Low	High
	<ul style="list-style-type: none"> <li>Use of a model that applies a method that is not established or commonly used in a particular industry or environment.</li> </ul>
<ul style="list-style-type: none"> <li>Limited use of data and assumptions.</li> </ul>	<ul style="list-style-type: none"> <li>Use of complex method that requires multiple sources of historical and forward-looking data or assumptions, with multiple interrelationships between them.</li> </ul>
	<ul style="list-style-type: none"> <li>Use of probability-based valuation concepts or techniques, option pricing formulae or simulation techniques to predict uncertain future outcomes or hypothetical behaviors.</li> </ul>
<ul style="list-style-type: none"> <li>Easy to obtain relevant and reliable data.</li> </ul>	<ul style="list-style-type: none"> <li>The process to derive data from relevant and reliable data source is complex.</li> </ul>
<ul style="list-style-type: none"> <li>Maintaining the integrity of data is simple.</li> </ul>	<ul style="list-style-type: none"> <li>Maintaining the integrity of data is complex.</li> </ul>
<ul style="list-style-type: none"> <li>Easy to understand the data.</li> </ul>	<ul style="list-style-type: none"> <li>Difficult to understand the data. For example, there is a need to interpret complex contractual terms.</li> </ul>

*Subjectivity*

Low	High
<ul style="list-style-type: none"> <li>The applicable financial reporting framework provides the valuation approaches, concepts, techniques and factors that may be used in the estimation method.</li> </ul>	<ul style="list-style-type: none"> <li>The applicable financial reporting framework does not specify the valuation approaches, concepts, techniques and factors that may be used in the estimation method.</li> </ul>
<ul style="list-style-type: none"> <li>The amount or timing, including the length of the forecast period is certain.</li> </ul>	<ul style="list-style-type: none"> <li>The amount or timing, including the length of the forecast period is uncertain.</li> </ul>
<ul style="list-style-type: none"> <li>Limited sources of data.</li> </ul>	<ul style="list-style-type: none"> <li>There are various potential sources of data.</li> </ul>
<ul style="list-style-type: none"> <li>Making assumptions about future events or conditions which are certain.</li> </ul>	<ul style="list-style-type: none"> <li>Making assumptions about future events or conditions which are highly uncertain.</li> </ul>

- Based on the facts and circumstances as set out above, Staff developed an example of a “less complex” accounting estimate and a “more complex” accounting estimate (see paragraph 5 below). This example illustrates how an account balance could be a “less complex” accounting estimate or a “more complex” accounting estimates based on the facts and circumstances.
- Based on the facts and circumstances that affect the degree of “estimation uncertainty”, “complexity” and “subjectivity”, Staff developed an example of a “less complex” accounting estimate and a “more complex” accounting estimate related to the provision on inventory impairment. This example

illustrates how an account balance could be a “less complex” accounting estimate or a “more complex” accounting estimates based on the facts and circumstances.

“Less Complex” Accounting Estimates	“More Complex” Accounting Estimates
Background	Background
<ul style="list-style-type: none"> <li>• The applicable financial reporting framework requires that inventory is measured at the lower of cost and net realizable value.</li> <li>• The entity sells cameras.</li> <li>• When sales of particular models slow down, the entity’s management reduces the selling price based on the average market price of the model.</li> <li>• Most of the year-end inventory is expected to be sold within 3 months.</li> <li>• The entity sells limited types of models.</li> </ul>	<ul style="list-style-type: none"> <li>• The applicable financial reporting framework requires that inventory is measured at the lower of cost and net realizable value.</li> <li>• The entity sells used cameras.</li> <li>• Each inventory is unique and do not have a readily available price.</li> <li>• When the cameras are not sold for a certain time of period, they will disassemble the cameras and sell its parts.</li> <li>• The entity has many counterparties to purchase or to sell their cameras or parts.</li> <li>• The selling price of the used cameras and the decision to sell them as parts is heavily relied on the owner management.</li> </ul>
Why it is less complex	Why it is more complex
<p>Estimation Uncertainty – Low</p> <ul style="list-style-type: none"> <li>• The net realizable value is based on the average market price of the model. The cameras the entity sell are sold by other competitors too and has a stable market to obtain the market price. (Market information available)</li> <li>• Most of the year-end inventory is expected to be sold within 3 months. (Short forecast period)</li> </ul>	<p>Estimation Uncertainty - High</p> <ul style="list-style-type: none"> <li>• Each inventory is unique and do not have a readily available price. (Use of unobservable inputs)</li> <li>• When the cameras are not sold for a certain time of period, they will disassemble the cameras and sell its parts. As such, net realizable value could be based on the selling price of the camera or the selling price of its parts depending on the timing. (Use of various assumptions that are interrelated)</li> </ul>

“Less Complex” Accounting Estimates	“More Complex” Accounting Estimates
<p>Complexity – Low</p> <ul style="list-style-type: none"> <li>The entity sells limited types of models thus only need to maintain limited cost data and selling price for the types of models. (Maintaining the integrity of data is simple.)</li> </ul>	<p>Complexity – High</p> <ul style="list-style-type: none"> <li>Each inventory is unique and could be sold as either a camera or its parts. The entity has many counterparties to purchase or to sell the cameras. As such, the entity has to manage high volume of data in order to track each of the unique inventory and multiple sources of data. (Maintaining the integrity of data is complex)</li> </ul>
<p>Subjectivity – Low</p> <ul style="list-style-type: none"> <li>The entity sells limited types of models thus only need to obtain limited cost data and selling price for the types of models. (Limited source of data)</li> </ul>	<p>Subjectivity – Medium</p> <ul style="list-style-type: none"> <li>The selling price of the used cameras and the decision to sell them as parts is heavily relied on the owner management. (The amount or timing is uncertain)</li> </ul>

## Appendix 4

### Reconciliation of ED-ISA for LCE Question Analysis

The below table presents a reconciliation of the questions provided to respondents of ED-ISA for LCE, along with the date of when a detailed analysis of comments was presented to the Board for discussion.

Q#	Text of Question per Explanatory Memorandum (ED-ISA for LCE)	Detailed Analysis to Board
1	Views are sought on:	
1(a)	The standalone nature of the proposed standard, including detailing any areas of concern in applying the proposed standard, or possible obstacles that may impair this approach?	June 2022
1(b)	The title of the proposed standard.	June 2022
1(c)	Any other matters related to ED-ISA for LCE as discussed in this section (Section 4A).	June 2022
2	Do you agree with the proposed conforming amendments to the IAASB Preface? If not, why not, and what further changes may be needed?	To Follow
3	Views are sought on the Authority (or scope) of ED-ISA for LCE (Part A of the proposed standard). In particular:	
3(a)	Is the Authority as presented implementable? If not, why not?	June 2022
3(b)	Are there unintended consequences that could arise that the IAASB has not yet considered?	June 2022
3(c)	Are there specific areas within the Authority that are not clear?	June 2022
3(d)	Will the Authority, as set out, achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard?	June 2022
3(e)	Is the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions clear and appropriate?	June 2022
4	Do you agree with the proposed limitations relating to the use of ED-ISA for LCE? If not, why and what changes (clarifications, additions or other amendments) need to be made? Please distinguish your response between the:	
4(a)	Specific prohibitions	June 2022
4(b)	Qualitative characteristics.	June 2022
5	Regarding the Authority Supplemental Guide:	
5(a)	Is the guide helpful in understanding the Authority? If not, why not?	June 2022
5(b)	Are there other matters that should be included in the guide?	June 2022

Q#	Text of Question per Explanatory Memorandum (ED-ISA for LCE)	Detailed Analysis to Board
6	Are there any other matters related to the Authority that the IAASB should consider as it progresses ED-ISA for LCE to finalization?	June 2022
7	Views are sought on the key principles used in developing ED-ISA for LCE as set in this Section 4C. Please structure your response as follows:	
7(a)	The approach to how the ISA requirements have been incorporated in the proposed standard.	June 2022
7(b)	The approach to the objectives of each Part of the proposed standard.	To Follow
7(c)	The principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management.	To Follow
7(d)	The approach to EEM including: (i) The content of the EEM, including whether it serves the purpose for which it is intended. (ii) The sufficiency of EEM. (iii) The way the EEM has been presented within the proposed standard.	To Follow
8	Please provide your views on the overall design and structure of ED-ISA for LCE., including where relevant, on the application of the drafting principles	June 2022
9	Please provide your views on the content of each of Parts 1 through 8 of ED-ISA for LCE, including the completeness of each part. In responding to this question, please distinguish your comments by using a subheading for each of the Parts of the proposed standard.	To Follow
10	For Part 9, do you agree with the approach taken in ED-ISA for LCE with regard to auditor reporting requirements, including:	
10(a)	The presentation, content and completeness of Part 9.	To Follow
10(b)	The approach to include a specified format and content of an unmodified auditor's report as a requirement?	To Follow
10(c)	The approach to providing example auditor's reports in the Reporting Supplemental Guide.	To Follow
11	With regard to the Reporting Supplemental Guide:	
11(a)	Is the support material helpful, and if not, why not?	To Follow
11(b)	Are there any other matters that should be included in relation to reporting?	To Follow
12	Are there any areas within Parts 1–9 of the proposed standard where, in your view, the standard can be improved? If so, provide your reasons and describe	To Follow

Q#	Text of Question per Explanatory Memorandum (ED-ISA for LCE)	Detailed Analysis to Board
	any such improvements. It will be helpful if you clearly indicate the specific Part(s) which your comments relate to.	
13	Please provide your views on transitioning:	
13(a)	Are there any aspects of the proposed standard, further to what has been described above, that may create challenges for transitioning to the ISAs?	To Follow
13(b)	What support materials would assist in addressing these challenges?	To Follow
14	Do you agree with the proposed approach to the future updates and maintenance of the Standard and related supplemental guidance?	To Follow
15	For any subsequent revisions to the standard once effective, should early adoption be allowed? If not, why not?	To Follow
16	Should a separate Part on the ISA-800 series be included within ED-ISA for LCE? Please provide reasons for your response.	To Follow
17	In your view, would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion and for which the proposed standard has been developed? If not, why not. Please structure your comments to this question as follows:	
17(a)	Whether the proposed standard can, and will, be used in your jurisdiction.	June 2022
17(b)	Whether the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.	June 2022
17(c)	Whether there are aspects of the proposed standard that may create challenges for implementation (if so, how such challenges may be addressed).	To Follow
18	Are there any other matters related to ED-ISA for LCE that the IAASB should consider as it progresses the proposed standard to finalization?	To Follow
19	What support and guidance would be useful when implementing the proposed standard?	To Follow
20	Translations—recognizing that many respondents may intend to translate the final ISA for LCE in their own environments, the IAASB welcomes comment on potential translation issues noted in reviewing ED-ISA for LCE.	To Follow
21	Effective Date—Recognizing ISA for LCE is a new standard, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning at least 18 months after the approval of a final standard. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA for LCE.	To Follow

Q#	Text of Question per Explanatory Memorandum (ED-ISA for LCE)	Detailed Analysis to Board
22	The IAASB is looking for views on whether group audits should be excluded from (or included in) the scope of ED-ISA for LCE. Please provide reasons for your answer.	June 2022
23	Respondents in public practice are asked to share information about the impact of excluding group audits from the scope of ED-ISA for LCE on the use of the proposed standard. In particular:	
23(a)	Would you use the standard if group audits are excluded? If not, why not?	June 2022
23(b)	Approximately what % of the audits within your firm or practice would be group audits that would likely be able to use ED-ISA for LCE (i.e., because it is likely that such group audits could be considered less complex entities for the purpose of the proposed standard) except for the specific exclusion?	June 2022
23(c)	What common examples of group structures and circumstances within your practice would be considered a less complex group.	June 2022
24	<p>If group audits are to be included in the scope of ED-ISA for LCE, the IAASB is looking for views about how should be done (please provide reasons for your preferred option):</p> <p>(a) The IAASB establishes a proxy(ies) for complexity for when the proposed standard may be used (“Option 1 - see paragraph 169); or</p> <p>(b) ED-ISA for LCE sets out qualitative characteristics for complexity specific to groups (Option 2 - see paragraph 176), to help users of the proposed standard to determine themselves whether a group would meet the complexity threshold.</p>	June 2022
25	Are there other ways that group audits could be incorporated into the scope of the proposed standard that is not reflected in the alternatives described above? For example, are there proxies for complexity other than what is presented in paragraph 169 that the IAASB should consider?	June 2022
26	<p>If group audits are included in ED-ISA for LCE, how should the relevant requirements be presented within the proposed standard (please provide reasons for your preferred option):</p> <p>(a) Presenting all requirements pertaining to group audits in a separate Part; or</p> <p>(b) Presenting the requirements pertaining to group audits within each relevant Part.</p>	June 2022