Audits of Less Complex Entities

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IAASB CAG Meeting
Agenda Item E
September 9, 2020
Introduction

Developments since March 2020
Reducing Complexity in the ISAs and Audits of Less Complex Entities (LCEs)

• Key topic for IAASB moving forward
• Top of mind:
  – Need for a **global solution**; many jurisdictional developments which are not in the public interest
  – Need to **keep standards fit-for-purpose for all**
  – **More is needed quickly** – IAASB mindful of risks but also needs to keep due process in mind
Approach to Addressing the Challenges and Issues

- Direction is two-fold (IAASB agreed):
  - **Broader approach** to drafting the ISAs – drafting principles and guidelines to address complexity, understandability, scalability and proportionality (CUSP)
  - **Separate standard** – currently developing fundamental principles
  - Focus areas in both include documentation

*Both streams expected to inform each other*
CUSP Workstream

Complexity, Understandability, Scalability & Proportionality (CUSP)
Moving Forward – CUSP Workstream

• Focused Working Group
• To continue information gathering
  – Develop drafting principles and guidelines
  – Timeline:

• Documentation
  – Explore and determine what actions are appropriate
  – May involve the development of non-authoritative materials

- August 2020: Development of the drafting principles and guidelines
- Jan 2021: First Discussion with Board on drafting principles and guidelines
- June 2021: Consult on the drafting principles and guidelines
- Q2 2022: Determine nature and extent of project to revise ISAs using drafting principles and guidelines
Development of the Drafting Principles and Guidelines

Documenting the Clarity Drafting Conventions

New Presentation Principles of Recently Revised ISAs

Other Drafting Matters

Drafting Principles and Guidelines

Enable more consistent & effective use of ISAs
Matters for Consideration

• Question 1:

CAG Representatives are asked for views on the proposed approach to reduce complexity in the ISAs outlined in the CUSP Workstream
Development of a Separate Standard for Audits of LCEs
Moving Forward – Separate Standard

• Focused Working Group
• To progress as a priority
  – ‘Test’ proposals during development → helps keep developments on track by socializing significant proposals at key milestones (LCE Reference Group)
  – Timeline for separate standard:

  July 2020
  Commencement of development of separate standard

  Dec 2020
  Project Proposal and First Draft for IAASB discussion

  March 2021
  Discussion of Second Draft with IAASB

  June 2021
  Approval of Exposure Draft

• Ongoing outreach throughout development period
  – Third planned roundtable in Paris once ED finalized
Applicability of New Separate Standard

Description

• Shorter and more succinct description
• On balance more prescriptiveness
• Consideration of audit response – link to what is in the separate standard
• Not appropriate for listed – still need to consider whether to extend that to other types of entities (e.g., PIEs)
Separate Standard—Overarching Principles

- Risk-based approach (principle based)
- Reasonable assurance opinion
- Objectives for auditor’s procedures
- Professional judgment & professional skepticism
- Ethical and quality management requirements
- Clear, consistent documentation requirements

Still need to decide:
- Application material
- Link back to the ISAs
Development of the Separate Standard

- Core procedures for reasonable assurance opinion

- Separate Standard – following the flow of the audit

- Make standard more targeted to apply – more effective and efficient audit
Separate Standard—Reference Group and Other Targeted Outreach

• LCE Reference Group
  – 15 participants from many jurisdictions, including some we don’t ordinarily hear from (e.g., India, Indonesia, Barbados, Argentina)
  – Checking at critical junctures - “pulse check”
  – Participants who may not ordinarily engage with in our process
  – Focus on practitioners, but range of others including two public sector
  – Different to the Working Group (not intended to duplicate) – interactions undertaken on a more agile basis

• IFAC SMP Advisory Group
Matters for Consideration

• Question 2:

CAG Representatives are asked for views on the proposed applicability of the separate standard to be developed and the overarching principles to develop this standard

• Question 3:

CAG Representatives are asked whether there are any other matters that the IAASB should consider as it progresses its two initiatives in relation to Audits of LCEs