

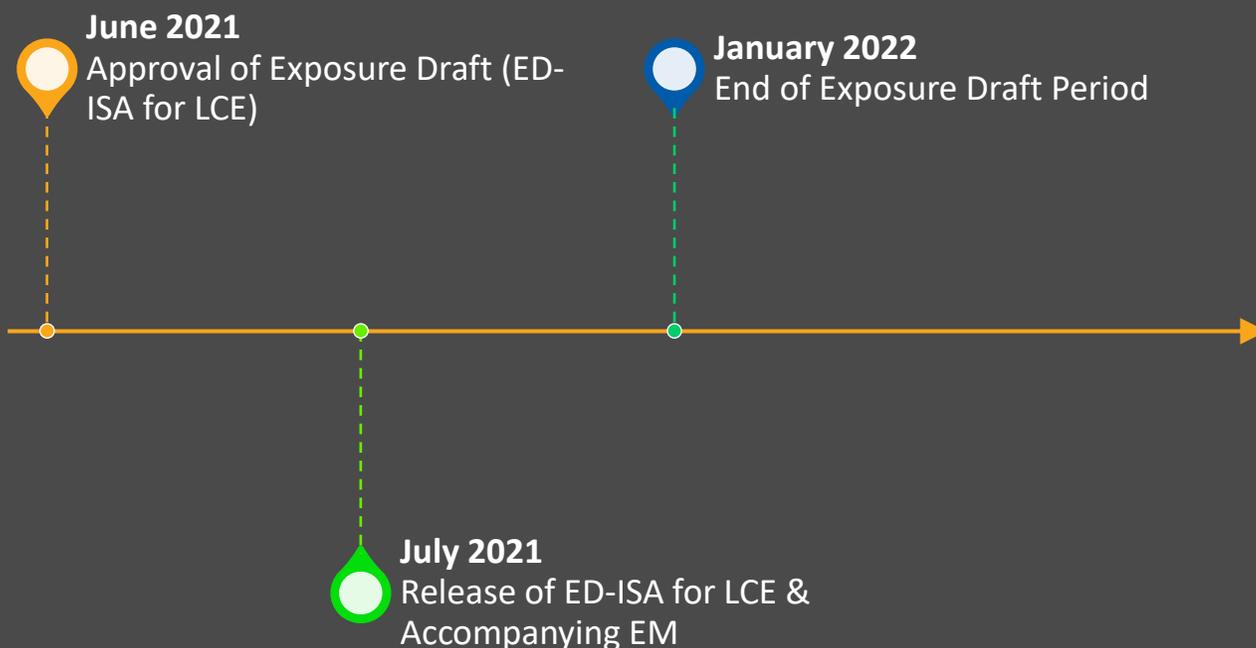
# Audits of Less Complex Entities

Presented by:  
Kai Morten Hagen, Task Force  
Chair

IAASB Board Meeting  
June 15, 2022



# Where We Are



## Objective of Today's Session

- ❖ Provide Board with overview of targeted feedback from ED-ISA for LCE
- ❖ Focus on overarching matters that will affect the draft standard more pervasively
- ❖ Get direction from the Board in order to progress the project

## Our Objectives of a Project to Develop a Separate Standard

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Maintain **confidence in financial reporting** of less complex entities (LCEs)

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Help auditors of LCEs undertake consistent, effective, and a **proportionate approach** to producing **high-quality audits**

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Responding to stakeholder needs – address a growing and consistent call for a **solution to proportionality and scalability of the auditing standards**

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Promote a **more consistent application of auditing standards** to audits of LCEs in a **global context**

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# Significant Outreach During Comment Period

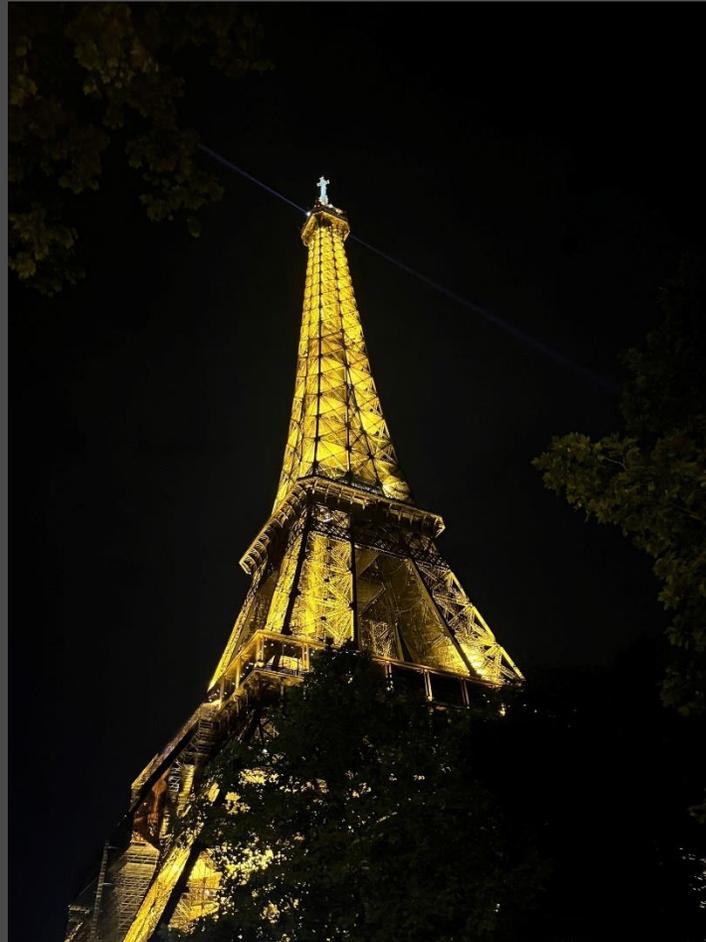
- 24 Outreach Events: Roundtables, Presentations, Linked-In Live
- 90+ Countries Reached
- Different Stakeholder Groups
  - Regulators
  - PAOs
  - Practitioners
  - Academics & Others
- Translation of ED-ISA for LCE
- IFAC & IAASB Survey



# Comment Letters

Monitoring Group	2
Investors and Analysts	1
Regulators and Audit Oversight Authorities	11
National Auditing Standard Setters	15
Accounting Firms	29
Public Sector Organizations	6
Professional Accountancy and Other Professional Organizations	69
Academics	4
Individuals and Others	8
<b>Total</b>	<b>145</b>

# LCE Task Force Meeting



# Outreach After the Comment Period (May 2022)

- **Paris Conference**
  - 130+ Participants from 33 Jurisdictions
  - Key Takeaways:
    - Expressed need for a timely global solution
    - Enthusiasm to finalize draft standard as quick as possible
    - Focus on meeting stakeholder needs - more proportionate for an audit of an LCE
    - Need common understanding of an LCE to guide scope
- **NSS Meeting**
  - Strong encouragement to progress the project
  - Mixed Views about types of entities the draft standard should be designed for and how it should be described

# The Basis for the Design of the Standard

*(Agenda Item 6, Section III)*

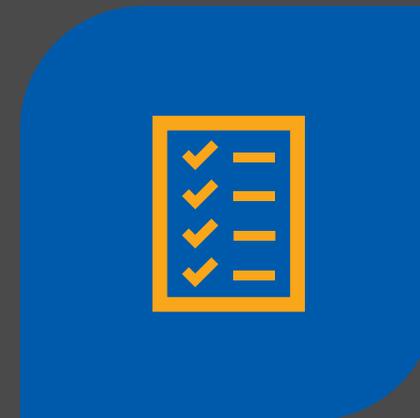
# Basis of the Design of ED-ISA for LCE



Significant feedback that the ED-ISA for LCE is “too similar” to the ISAs



Opportunities for further differentiation from the ISAs



Sufficiency of guidance

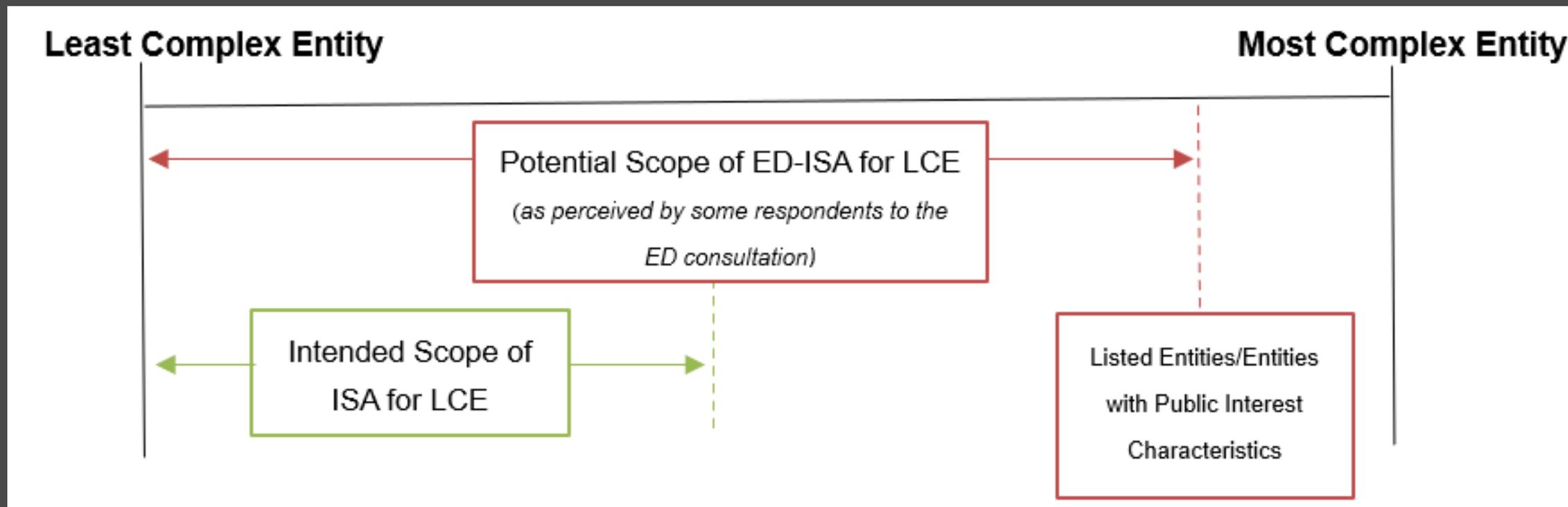
## Clarity Around Scope of the Standard Is Needed

It is not clear for what type of entities the draft standard is for



Clarity is needed about a “typical LCE”

# The Perceived Scope of ED-ISA for LCE



## Description of a 'Typical LCE'

Entity's business activities, business model & industry

Organizational structure and size

Nature of Finance Function

Information System

Application of the Financial Reporting Framework and  
the Financial Reporting Process

Other Factors

Paragraph 63, Agenda Item 6

# Matters for IAASB Consideration

Board Members are asked for views on:

- 1(a) The description of a ‘typical LCE’ (*para. 63, Agenda Item 6*) including:
- (i) The characteristics described, and whether these reflect a ‘typical LCE’ for the purpose of the draft standard; and
  - (ii) Whether there are other characteristics that should be considered.

**Section III: The  
Basis of  
Design of the  
Draft Standard**

# Basis of the Design

## Basis of Design of Requirements

- Revisions to areas identified as most impactful by respondents
- Principles based requirements, reduce unnecessary granularity
- Similar key outcome in order to achieve reasonable assurance

## Sufficiency of Guidance

- Targeted additions & revisions based on respondent feedback
- Overall approach does not need to change

# Matters for IAASB Consideration

Board Members are asked for views on:

- 1(b) Recommendation to future differentiate the standard through less granular, principles-based requirements focused on targeted areas as described in *para. 70, Agenda Item 6* (and subject to additional items identified).
2. Recommendation to continue to have limited EEM with changes to the EEM to focus on amendments to address more targeted comments by respondents to ED-ISA for LCE (i.e., rather than a change in the overall approach to EEM).

**Section III: The  
Basis of  
Design of the  
Draft Standard**

# The Standalone Nature of the Standard

*(Agenda Item 6, Section IV)*

# Inability to Refer to the ISAs

Guidance

Requirements Not  
Addressed in ISA  
for LCE

# Matters for IAASB Consideration

## Section IV: The Standalone Nature of the Draft Standard

3. Board Members are asked for views on Task Force's views and recommendations to:

(a) Continue to develop the draft ISA for LCE as a standalone "self-contained" standard, with no ability to "top-up" with ISA requirements for specific circumstances.

However, including wording within the draft ISA for LCE to clarify that the ISAs may be a source of additional guidance for the auditor (*para. 102, Agenda Item 6*).

# Standalone Nature - Other Matters

## Accounting Estimates

- Most common area of concern for respondents
- Not always an indicator of complexity more broadly
- Concern over need to transition
- Explore including procedures for 'more complex' accounting estimates

## Title of the Standard

- Some comments received on terminology
- Recommendation to not change

# Matters for IAASB Consideration

## Section IV: The Standalone Nature of the Draft Standard

3. Board Members are asked for views on Task Force's views and recommendations to:
  - (b) Continue exploring how procedures for 'more complex' accounting estimates can be included in the draft standard (e.g., in an additional part) (*paras. 107-112, Agenda Item 6*)
  - (c) Not make changes to the title of the draft standard.

# The Authority of the Standard

*(Agenda Item 6, Section V)*

# Explaining the Scope of the Standard Through the Authority

Support for General  
Approach

Too much Judgment –  
Inconsistency in  
Application

Other Comments

# The Authority of the Draft Standard

## Prohibitions

- Some concerns about certain prohibited entities
- Notion of public interest characteristics
- Align with IESBA PIE

## Qualitative Characteristics

- Describe complex characteristics
- Comments on specific characteristics (e.g., accounting estimates)

## Other

- Further explore quantitative thresholds to be set by individual jurisdictions
- Guidance & examples

## Initial Updates to Authority (*Agenda Item 6, Appendix 4*)

Make the Authority more succinct and understandable through:

- (a) Changing the presentation of existing content
- (b) Revision of qualitative characteristics (*paragraph A.3.*)
- (c) Inclusion of quantitative thresholds (*paragraph A.4.*), with guidance to describe the jurisdictions respective responsibility.

# Matters for IAASB Consideration

## Section V: The Authority of the Draft Standard

4. Board Members are asked for views on:
  - (a) Continuing to pursue the approach to the Authority of describing the limitations (i.e., describing prohibited entities and qualitative characteristics to determine whether standard is appropriate to use or not).
  - (b) Incorporating the description of a typical LCE (*per para. 63*) into the qualitative characteristics described in Part A of the draft standard (i.e., in the Authority).
  - (c) *[to discuss next]*
  - (d) Possible changes to the Authority as set out in *Appendix 4*.

# Matters for IAASB Consideration

4. Board Members are asked for views on:

...

- (c) Further encouraging the setting of quantitative threshold(s) (in addition to the existing approach of using specifically prohibited entities and a determination of a set of qualitative characteristics), and if this should be required to be set by jurisdictions.

...

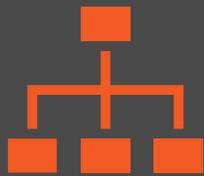
5. The Board is asked whether the possible changes described in **Section V** will assist with making it clearer what the scope of the draft standard is, and therefore easier to determine the types of entities for which the draft standard has been designed. If not, the Board is asked what else should be considered.

## Section V: The Authority of the Draft Standard

# The Inclusion of Audits of Group Financial Statements (Group Audits)

*(Agenda Item 6, Section VI)*

# The Inclusion of Audits of Group Financial Statements



**Strong support for inclusion of group audits**



**Mixed views about a prescriptive “proxy for complexity”**

Many examples provided across a broad spectrum



**Support for Requirements in a separate part**

# Matters for IAASB Consideration

## Section VI: The Inclusion of Audits of Group Financial Statements

6. The Board is asked if they agree with Task Forces recommendations relating to:
  - (a) The inclusion of group audits in the scope of proposed ISA for LCE.
  - (b) Requirements for group audits being included and presented as a separate part of the draft standard.

# How Group Audits May be Incorporated



**Use of Component Auditors**

# Matters for IAASB Consideration

## Section VI: The Inclusion of Audits of Group Financial Statements

7. The Board is asked for feedback on:
  - (a) The Task Force's view that the characteristics of a less complex entity generally also apply to a less complex group (including any quantitative indicators).
  - (b) Whether there are additional characteristics that would be relevant to describing a less complex group not addressed in *para. 197, Agenda Item 6*.
8. The Board is asked for any relevant reflections on the Task Force discussion relating to how the use of component auditors may affect the use of the standard.

# Other Matters

*(Agenda Item 6, Section VII)*

# Other Matters

## Overall Design & Structure

- Positive Feedback on overall design, structure and flow
- Individual areas for improvement will be taken into account when drafting commences

## Reporting (Part 9)

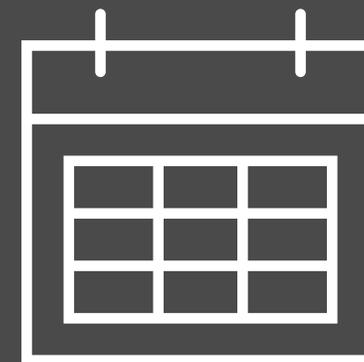
- Strong support for the innovative approach
- No pervasive concerns in this area
- Detailed comments will be brought to Board in future meeting.

# Next Steps

*(Agenda Item 6, Section VIII)*

# The Way Forward

- **It is Important to Continue the Project**
  - ❖ On balance, support from stakeholders to develop separate standard
  - ❖ Global need, in particular developing nations and jurisdictions not typically represented
  - ❖ Public interest issues need to be addressed
  - ❖ TF will consider concerns raised and how they can be addressed
- **Next Steps**
  - Continue to analyze responses to remaining questions
  - Commence drafting in priority areas
  - Comment drafting of part for group audits for separate exposure



# Matters for IAASB Consideration

## Section VIII: Next Steps

9. The Board is asked if they agree with the Task Force recommendation to continue to progress the project to develop a separate standard for audits of financial statements of LCEs.
10. The Board is asked to provide any other comments regarding the matters brought for Board consideration in this Agenda Item, or the proposed next steps for the project.

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