

Audits of Less Complex Entities – Summary of Feedback and Selected Issues

Objectives of the Board Discussion

1. To provide the Board with an overview of the overarching matters in the feedback received on the Exposure Draft of the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ED-ISA for LCE).
2. To obtain the Board's input on matters where Board views are needed in order to progress the project. **Matters for Board Consideration** are set out within this paper.

Approach to the Board Discussion and This Agenda Item

3. The LCE Task Force (Task Force) has initially focused on those areas that are fundamental to progressing the draft standard, which in the view of the Task Force are overarching matters that will affect the draft standard more pervasively, and for which the direction of the Board is sought.
4. This Agenda Item sets out a summary of the feedback heard from respondents to the areas that will be focused on first, as well as Task Force views and recommendations for a way forward. This will enable the Task Force to progress the draft standard for future Board discussions.
5. The following appendices to this Agenda Item have also been presented:

Appendix 1	Task Force Members and Activities
Appendix 2	Outreach Activities
Appendix 3	Summary of Discussions with NSS Representatives
Appendix 4	Initial Possible Updates to Part A, Authority of the [Draft] ISA for LCE

Format of Board Discussion

6. The Task Force Chair will provide a high-level summary of the feedback heard to the exposure draft consultation and will work through this Agenda Item in the order that it is presented.

Materials Presented

The following supporting materials, which are integral to understanding this Agenda Item, have also been presented. **Supplement 1 (Section C)** sets out the process for analyzing the feedback to ED-ISA for LCE and how those comments have been captured within this Agenda Item.

Supplement 1	A – List of Respondents to ED-ISA for LCE B – Demographic Information of Survey Respondents C – Process for Analysis of Comment Letters and Explanation of Supplements D – Reconciliation of Questions from the EM to Issues Paper and Supplement 2
Supplement 2	NVivo Respondent Summary Analysis for Selected Questions from ED-ISA for LCE
Supplements 2-01 – 2-25	NVivo Reports with Respondents' Comments on Selected Questions from ED-ISA for LCE

I. Introduction

How Did We Get Here?



Call for Action

1. Between 2005 – 2009 the International Standards on Auditing (ISAs) were clarified and revised (the 'Clarity Project') with a view to being applied to audits of entities of all sizes and complexity. As part of the post-implementation review (which was completed in 2013), the IAASB conducted a survey that highlighted a number of concerns around the scalability of requirements within the ISAs, and the nature and extent of documentation required.
2. In considering the findings from the post-implementation review, the IAASB acknowledged that the volume and complexity of the standards may result in challenges for audits of less complex entities (LCEs). Accordingly, the IAASB recognized in its Strategy for 2015–2019, that in order to achieve effective implementation globally, its standards need to be, and be seen to be, proportionate and scalable for audits of all sizes and complexity.
3. Further efforts to explore the challenges experienced by auditors of LCEs were undertaken, including:
 - (a) **January 2017** – The IAASB, together with the Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC), held a two-day working conference in Paris, focused on understanding the needs of small- and medium-sized practice (SMPs) when applying audit and non-audit IAASB standards to LCEs.
 - (b) **March 2017** – The IAASB discussed a paper setting out possible actions for how scalability and proportionality could be incorporated into the IAASB's standards, in particular in the ISAs.
 - (c) **June 2017** – An informal working group was established by the IAASB to consider the issues raised with a view to advising the Board on an appropriate way forward.
 - (d) **March 2018** – The IAASB agreed with the recommendation that a global consultation on the challenges of auditing LCEs was appropriate.

- (e) **April 2019** – [A Discussion Paper](#), *Audits of Less Complex Entities: Addressing Possible Options to Address the Challenges in Applying the ISAs* (DP) was approved for issue at the March 2019 IAASB meeting and was published in April 2019.
 - (f) **May 2019** – The second Paris conference was held, this time focusing on matters set out in the DP (again held jointly with the CNCC and the CSOEC).
4. During this period, the Board also consulted extensively on the issues and challenges related to audits of LCEs with the International Federation of Accountants (IFAC) Small and Medium Practices (SMP) Advisory Group, National Standards Setters (NSS), regulators and audit oversight bodies (regulators), representatives from the Forum of Firms and with auditors who serve LCEs, as well as specifically target stakeholder groups representing the interests of SMPs and LCE's.

Project Proposal

5. The DP proposed various actions that the IAASB could undertake, and on which stakeholder views (on a preferred action) were sought:
- (a) Revise the ISAs to address scalability more explicitly and make the auditors work effort clearer;
 - (b) Develop a separate auditing standard for audits of LCEs that provides the same level of assurance as the ISAs (i.e., reasonable assurance); or
 - (c) Develop guidance for auditors of LCEs or other related actions on how the ISA requirements apply in the circumstances of LCEs.
6. The more substantial, overarching matters heard from outreach and noted in the responses to the DP (as summarized in a [Feedback Statement](#)) included that:
- (a) There is an urgent need to have an international solution to address issues related to audits of LCEs, as jurisdictions increasingly develop their own standards and commence other initiatives in this area (it was noted that this was not in the public interest to delay further as this may have long-term implications on the adoption and use of the IAASB's international standards).
 - (b) The IAASB should prioritize its efforts on developing a solution to address the challenges and issues related to audits of LCEs.
 - (c) The solution likely involves a combination of the actions set out in the DP.
7. In June 2020 the IAASB agreed to two workstreams:
- (a) An 'ISA Focused Workstream' focusing on the complexity, understandability, scalability and proportionality (CUSP) issues identified in the ISAs more broadly, to address challenges that have been identified in applying the ISAs, for audits of all types of entities, including audits of LCEs (see paragraph 31 for progress on this project); and
 - (b) A 'Separate Standard Workstream' exploring the development of a separate standard to focus on audits of LCEs.
8. In December 2020, the [Project Proposal](#) for the workstream to develop a separate standard was approved by the IAASB. It was agreed that the project is intended to serve the public interest by:
- (a) Maintaining confidence in financial reporting of LCEs.
 - (b) Helping auditors of LCEs undertake consistent, effective, and a proportionate approach to producing high-quality audits.

- (c) Being responsive to stakeholder needs – to address a growing and consistent call for an appropriate solution to the challenges of proportionality and scalability in the ISAs.
- (d) Promoting a more consistent application of the auditing standards to audits of LCEs particularly where alternative approaches are emerging.

Development of a Draft Standard

9. In accordance with the accelerated project timeline included in the Project Proposal, an exposure draft of a separate standard was developed. The Board discussed full drafts of the standard in December 2020 and March 2021, along with a targeted discussion of the Authority of the draft standard in May 2021. A draft of the standard was approved for exposure by the IAASB in June 2021.
10. Consistent with an agile approach to standard-setting, during development of the draft standard the IAASB leveraged a 15-member international 'Reference Group,' ([the LCE Reference Group](#)) comprised of representatives from the LCE community across a broad range of jurisdictions, in order to receive real-time stakeholder feedback. The Task Force also received feedback from IFAC's SMP Advisory Group, NSS, the IAASB Consultative Advisory Group (CAG), representatives from the Forum of Firms and other relevant stakeholders.

What Have We Done Since We Last Met?

11. In July 2021, the [ED-ISA for LCE](#) was published. The accompanying Explanatory Memorandum (EM) set out the background to the development of the draft standard, explained key decisions made and included a list of specific questions for the public to comment on. To allow time for translation to multiple languages, and to encourage input from stakeholders the IAASB may not ordinarily hear from, a six month consultation period was agreed to, which ended on January 31, 2022.
12. The ISAs are used in over 130 countries globally. These include many countries that have lower gross domestic product (GDP) with less mature or sophisticated economies. Within these jurisdictions there are likely many entities that would be considered "less complex" but still require an audit (for example to obtain funding), and therefore the draft standard would be particularly relevant to them. In addition, many of these jurisdictions do not engage with the IAASBs standard-setting process. Consequently, the Task Force had the view that it was important to obtain feedback on the draft standard from these jurisdictions, as well as other jurisdictions who perform a large number of LCE audits. A number of targeted outreach and related activities was undertaken during the consultation period, including:
 - (a) Translating the draft standard, and supporting materials, into Spanish and French (to encourage those who may not respond in English).
 - (b) Substantial outreach, in collaboration with others (including IFAC, professional accountancy and other professional organizations (PAOs) and the International Association for Accounting Education & Research (IAAER), with the objective of collecting and encouraging feedback from all stakeholders with an interest in audits of LCEs. The outreach included global and regionally focused events and activities designed to raise awareness and solicit feedback from those that are likely to use or be affected by the draft standard.
 - (c) A three-part discussion series covering key topic areas relevant to the draft standard, which were held on the LinkedIn Live platform and open to the public.

- (d) A publicly available survey (see paragraph 14 below) that was promoted by IFAC, IAASB and PAOs (including among their members).
13. A full list of outreach activities during the consultation period can be found in **Appendix 2**. Representatives from over 90 countries attended IAASB, IFAC or other related events, which included roundtables, presentations, webinars and Linked-In Live discussions. These outreach activities, as had been intended, have provided further input to help inform findings from the consultation. Where relevant a summary of the key findings from outreach has been separately described in this paper.
14. In collaboration with IFAC, the IAASB also developed a survey (the Survey), available in English, Spanish and French, to offer an alternative way to participate in the consultation. A breakdown of the 250 respondents to the Survey is provided in **Supplement 1 (Section B)**.¹ Responses from the Survey have also helped inform the findings from the consultation. Where relevant the Survey results are separately described in this paper.
15. The IAASB received 145 comment letters providing feedback on the ED-ISA for LCE. A breakdown of respondents by stakeholder group and by region is illustrated below:

Stakeholder Group	Number
Monitoring Group	2
Investors and Analysts	1
Regulators and Audit Oversight Authorities (“regulators”)	11
National Standard Setters (“NSS”)	15
Accounting Firms	29
Public Sector Organizations	6
PAOs	69
Academics	4
Individuals and Others	8
Total	145

Stakeholder Group	Number
Global	25
Asia Pacific	25
Europe	54
Middle East and Africa	17
North America	12
Central & South America	12
Total	145

16. A full list of respondents can be found in **Supplement 1 (Section A)**. The feedback in these letters was imported into NVIVO and analyzed into key themes as described in **Supplement 1 (Section C)**.
17. In May 2022 a third Paris Conference for Audits of LCEs (the “Third Paris Conference”) was held with the aim of deepening the IAASB’s understanding of some of the more substantial matters

¹ The survey was undertaken on the basis that the individual responses would not be made public, but findings would be aggregated and used by the IAASB in their future considerations when progressing the draft standard.

that will be considered as the draft standard is progressed. Key messages from this conference have been included in the [Key Takeaways](#) publication and also noted in this paper where relevant.

18. The Task Force Chair also provided a high-level summary of the feedback to the IAASB NSS at its May 2022 meeting and obtained views on some targeted matters. **Appendix 3** provides a summary of the discussions.

How Do We Move Forward?

19. Given the broad nature of feedback received (i.e., ranging from high level overarching comments to detailed drafting comments), and the interconnectedness of many of the overarching issues that have been raised, the Task Force has prioritized the more substantial directional matters that will impact the draft standard as it is progressed to finalization. The remaining feedback from respondents, generally more targeted to specific areas or of a more focused nature, will be brought to the Board for discussion as revisions to ED-ISA for LCE are progressed to finalize the proposed standard, after the more substantial directional discussions have been had.
20. This Agenda Item and resulting Board discussion has been structured around the following pervasive themes identified:
 - (a) The need to continue progressing a proportionality solution to completion – see **Section II** below.
 - (b) The basis for the design of the draft standard – see **Section III** below.
 - (c) The standalone nature of the draft standard – see **Section IV** below.
 - (d) The Authority of the draft standard – see **Section V** below.
 - (e) The inclusion of audits of group financial statements (group audits) – see **Section VI** below.

Other relevant matters have been described in **Section VII** below.

21. The remainder of this paper describes the key themes identified and Task Force views on those matters. Due to the large volume of individual comments, it is not possible to describe all feedback provided. Accordingly, it is intended that this paper should be read in conjunction with the summary and reports provided in **Supplement 2** and **Supplements 2-01 – 2-25**. A reconciliation of the relevant questions from the EM (and their corresponding supplemental reports as presented), with the location discussed in this issues paper, is included in **Supplement 1 (Section D)**.
22. Although there were respondents that did not support progressing the draft standard further (as described in **Section II** below), some of these respondents did still provide further comments on specific questions and topics discussed in this paper, and so have been included as appropriate in the analysis.

II. The Need to Continue Progressing a Proportionality Solution to Completion

23. As explained above, the decision to develop a separate standard for audits of LCE's was made in 2020 after substantial consultation with stakeholders, therefore a specific question was not included in the EM about whether to continue the project. However, in analyzing the responses there were a number of comments supporting continuation of the project, but also comments opposing the IAASB continuing with the development of the separate standard.

What We Heard

See **Supplement 2** (sheets “Project Level Support” & “1(a)”) & **Supplements 2-01 & 2-02**

Views Expressed

Respondents Views Supporting the Project

24. A wide range of respondents from different jurisdictions expressed explicit support for the project to develop a separate standard for LCEs in their written responses. These included regulators, NSS, accounting firms, public sector organizations and PAOs, particularly from (but not limited to) jurisdictions who perform a significant proportion of audits of LCEs. These respondents reiterated the urgent need to develop a separate standard that is proportionate to the typical nature and circumstances of LCEs given the increasing complexity to the ISAs. Broadly, reasons for supporting the project included:
- (a) *Solution to concerns about LCE Audits:* Respondents commented that a separate standard would provide a global solution to addressing concerns that the ISAs are too complex and challenging to apply to audits of LCEs.
 - (b) *Global Fragmentation:* Respondents, including a regulator (that did support the project), PAOs and NSS, highlighted the importance of the initiative in order to address global fragmentation as more jurisdictional standards or solutions are developed, which may result in inconsistency in practice within the LCE audit environment. These respondents included an NSS who has recently released its own jurisdictional standard for audits of LCEs. It was further explained that the jurisdiction would prefer to adopt an international standard due to the importance of global consistency and comparability, including for cross-border LCEs.
 - (c) *Impact on Audit Quality:* A number of respondents supporting the project overall commented that they anticipated a positive impact to audit quality when using the separate standard, explaining that this was because auditors would be able to focus only on requirements that were relevant and proportionate to the typical nature and circumstances of an LCE, rather than requirements developed for entities with more complexity.

Outreach:

The view that a separate standard for LCEs may make a positive impact to audit quality was also expressed during outreach activities, particularly from SMPs who primarily serve LCEs and may not have access to network methodologies and tools, and from PAOs in jurisdictions that have a substantial number of entities that are less complex.

25. However, notwithstanding support for the project, there were concerns expressed by those supporting the project more broadly about whether the standard, as drafted, met the needs of stakeholders. Consistent with concerns expressed by respondents that did not support the project, many respondents noted that the draft standard (as presented in the ED-ISA for LCE) did not provide enough benefit or “value,” or was not sufficiently different from the ISAs, to justify its adoption and use (this is discussed further in **Section IV**).

Outreach:

The view that ED-ISA for LCE may not provide enough benefit to justify adoption was consistent with views expressed by some practitioners and PAOs during outreach activities.

Respondents Not Supporting the Project

Monitoring Group

26. Both MG members that responded to the ED-ISA for LCE expressed that they did not support continuation of the project to develop a separate standard and encouraged the IAASB to instead focus on applying CUSP principles to the ISAs which they believed should be scalable for all audits. They encouraged the IAASB to pursue this or other solutions (for example, the release of guidance or an electronic solution to address the actual or perceived challenges of auditing LCEs).
27. Both MG members viewed that the draft standard would cause confusion for stakeholders (including over what level of assurance is provided) and increase the expectation gap that is perceived to exist between auditors' responsibilities and stakeholders' expectations. Both members also commented that a separate standard may cause quality and consistency challenges including those related to auditors maintaining expertise in two sets of standards, and actual or perceived differences in audit quality.
28. One MG member expressed concern over the use of the IAASB's limited resources in the development and ongoing maintenance of a separate standard rather than on maintaining the ISAs. The MG member also noted there may be future calls for separate auditing standards for additional "sub-groups" of entities setting a precedent that should be avoided.

Other Respondents

29. Respondents that explicitly did not support continuing the project included regulators, accounting firms, NSS and PAOs, with many of the reasons cited similar to MG views expressed above. Broadly, reasons for not continuing to progress and finalize the draft standard included:
 - (a) *Market Confusion & Widening the Expectation Gap*: concern that the existence of a separate standard that provides the same level of (reasonable) assurance as the ISAs would be confusing for both auditors and users of financial statements, and in some cases that users may view the audit as "lower quality" or less robust. Concerns were raised regarding the potential fragmentation of the audit market (offering "two-tiers" of audits). In particular, respondents, including regulators, noted that a separate standard may lead to a widening of the expectation gap (described in paragraph 27 above).
 - (b) *Fragmentation of the Audit Profession & Long-Term Training & Skills Gap*: concern regarding the creation of a "two-tier" profession where some auditors or firms may only conduct audits using the ED-ISA for LCE and then may not develop or maintain the skills, experience, and expertise to audit using the ISAs. Respondents noted that this may lead to auditors not being able to identify, or perform appropriate procedures to respond to, situations when an entity is no longer less complex. Respondents also raised concerns about the potential impact to the training and development, qualification or authorization and career mobility of audit professionals.
 - (c) *Audit Quality Risks*: concern that a separate standard (that may be viewed as less stringent than the ISAs) may be incorrectly or inconsistently applied, ultimately reducing audit quality. Respondents noted that, as it was unclear how an audit performed under ED-ISA for LCE would be different than an audit performed under the ISAs (this matter is explored further in **Section III** below), practitioners may misunderstand the nature of the draft standard, resulting in lower quality or deficient audits. Concerns were also raised around the risk of inappropriate use on audits of complex entities (this matter is explored further in **Section V** below).

- (d) *Burdensome to Implement*: broad concerns relating to the effort for auditors and firms to implement and maintain two sets of standards, methodologies, and training programs was cited by accounting firms and PAOs. It was also noted that the perceived “benefit” of a separate standard (as presented in the ED-ISA for LCE) would not outweigh the “costs” of implementation (this matter is explored further in **Section III** below) and so would likely limit uptake of the draft standard, thereby not achieving the objective of a consistent global solution. One accounting firm noted the project would further the “standards overload professional accountants have experienced in the last decade.”
- (e) *Use of IAASB Resources*: concern over the use of the IAASB’s limited resources in the development and ongoing maintenance of a separate Standard for LCEs, rather than on other projects.² One accounting firm expressed concern that the time spent “maintaining, evaluating and updating the LCE standard will have a negative impact on the IAASB’s ability to maintain the ISAs as high-quality standards in a timely manner.”

Alternative Solutions Proposed by Respondents

- 30. Respondents not supporting the project, from a range of stakeholder groups, emphasized that the ISAs should be proportionate and scalable for audits of entities of all complexities and sizes. A number of respondents referred to their response to the DP, explaining their (previously provided) preference for updating the ISAs rather than the development of a separate standard had not changed.
- 31. As an alternative solution to the development of a separate standard, respondents encouraged the IAASB to focus its efforts on applying the CUSP Principles and Guidelines to the existing ISAs (although some of these responses acknowledged the practical difficulty of updating the ISAs for these principles on a timely basis).

The CUSP workstream originated from the responses to the DP to address the feedback that addressing the CUSP principles was needed in the ISAs more broadly. The objective of the workstream was set up to develop drafting principles and guidelines to address complexity, understandability, scalability and proportionality when developing ISAs, and the initial principles and guidelines were recently agreed by the Board (in May 2022). It is intended that these drafting principles and guidelines will be applied by IAASB staff when drafting updates to existing standards and new standards going forward (i.e., prospectively).

Some comments from respondents to ED-ISA for LCE indicated that stakeholder expectations of the CUSP project are not in line with its actual scope, in particular that the project does not contemplate any “sweeping” or retrospective update to existing ISAs for the application of CUSP principles and guidelines.

- 32. In addition, of those respondents who expressed support for the project to develop a separate standard, comments were expressed that it should be an interim or short-term solution until the CUSP project is completed.
- 33. Respondents, including regulators, a PAO, NSS and accounting firms, also suggested that the creation of guidance could be an alternative option to the creation of a separate standard, and such guidance could utilize the work already performed on the ED-ISA for LCE as the basis. In

² This view was also raised by some respondents in the 2021 [consultation for the 2022-2023 IAASB Work Plan](#), where a small number of respondents (mainly regulators and audit oversight authorities) noted that the development of a separate standard should not be continued because it is not in the public interest. A MG member was of the view that the project should be reprioritized to rather commence projects focused on improving the ISAs for audits of public interest entities (PIE).

addition, there were also respondents that encouraged the consideration of an electronic solution that may be used to incorporate scalability into the ISAs or to present any guidance released.

Solutions to Overcoming Obstacles Proposed by Respondents

34. Respondents (who supported the draft standard as well as those who had cited reasons for not continuing to finalize the standard) suggested potential solutions to overcome obstacles or barriers.
35. To address the pervasive concern regarding potential confusion by users of financial statements of LCEs (as described in paragraph 29(a) above) about an audit that is perceived to be of a different quality, respondents emphasized the importance of a targeted awareness campaign about describing the standard upon publication, and as part of ongoing education efforts. Respondents noted that such activities could specifically try to address users understanding of:
 - (a) The objective of the IAASBs initiative to develop a separate standard for audits of LCEs.
 - (b) The nature of the draft standard and key differences from the ISAs, in particular in relation to the work effort required.
 - (c) The concept of reasonable assurance and reiteration that the draft standard provides reasonable assurance (as do the ISAs).

Task Force Views & Recommendations

36. Many of the concerns and challenges that have been raised are more specifically discussed in **Sections III to VI** below. Broader Task Force views on continuing to progress this project are set out in paragraphs 208 – 212.

III. The Basis for the Design of the Draft Standard

37. As described in the EM, the basis for the design of ED-ISA for LCE is a separate standard for an audit of the financial statements of an LCE that:
 - (a) Is proportionate to the nature and circumstances that would be typical of an audit of an LCE (as described in the Authority (Part A) of ED-ISA for LCE).
 - (b) Can be used effectively and efficiently in those typical circumstances to obtain sufficient appropriate audit evidence to support a reasonable assurance audit opinion.
 - (c) Utilizes a risk-based approach to an audit, with requirements that are principles-based.

What We Heard

See **Supplement 2** (sheets “1(a)”, “7(a)”, “17(a)” & “17(b)”) & **Supplements 2-02, 2-15, 2-17 & 2-18**³

38. A pervasive theme of respondent comments (both in general comments and in response to different individual questions) was that stakeholders were unclear about the overall nature of the draft standard, as well as what type of entity would qualify as an LCE. It was also questioned how an audit performed in accordance with this standard would differ from an audit performed in accordance with the full suite of ISAs for the same LCE.

³ Several themes in this section were pervasive across a range of questions, as well as through more general comments. Where themes have been explicitly categorized under questions in addition to 1(a) and 7(a) in **Supplement 2**, this has been identified.

*What Types of Entities Was the ED-ISA for LCE Designed For?*⁴

39. Regulators and larger accounting firms expressed that it was not clear as to the nature of the entities for which the ED-ISA for LCE could be appropriately used. Concerns noted by respondents included that the Authority as set out in Part A of the ED-ISA for LCE currently appeared to scope in too wide a range of entities. Commentators also noted that this may have contributed to the ED-ISA for LCE being viewed as very similar to the ISAs, as the vast majority of ISA requirements have been included reflecting differences of view as to the range of possible circumstances that may need to be addressed in an audit conducted in accordance with ED-ISA for LCE.
40. NSS and PAOs expressed different views on the extent to which the draft standard would be relevant for, and could be used in, their jurisdiction. Explanatory comments⁵ explained the nature of the local marketplace and audit regulations, with limited jurisdictions that had lower quantitative audit thresholds (i.e., where LCEs were more likely to need an audit), or with a high prevalence of LCEs in the local economy, expressing that a large proportion, or majority of audits that are performed in their jurisdiction, could be classified as an audit of an LCE for the purpose of the draft standard. Certain individual jurisdictions noted that they believed the draft standard would be appropriate for almost all audits in their jurisdiction except as specifically prohibited (e.g., listed entities, public interest entities, group audits etc.).
41. Respondents expressed concern over the potential breadth of entities between the range of “obviously less complex” and “very complex” that may fall into the scope of the draft standard due to the Authority of ED-ISA for LCE. Three large accounting firms suggested reducing the intended scope of applicability to only entities at the lowest level of complexity and size so that a standard can be developed that is more easily differentiated from the ISAs (i.e., a standard that excludes more audit circumstances, is more condensed but still has sufficient guidance). The comments relating to the Authority of the draft standard are explored further in **Section V**.

Overall Views: Approach to Using the ISAs

42. The requirements from the ISAs considered core to an audit were replicated and adapted, as appropriate, for the nature and circumstances of a typical LCE in ED-ISA for LCE. Audit procedures that are not relevant, as contemplated for a typical LCE (e.g., procedures specific to listed entities), are not included within ED-ISA for LCE.
43. When providing feedback on the approach to using the core ISA requirements and concepts as a base for establishing the work effort of the auditor when performing an audit of an LCE (question 7(a) in the EM), respondents agreed on balance with the approach. Most respondents either agreed outright with the approach or agreed with concerns (discussed further below).
44. NSS and PAOs expressed that the approach (e.g., using familiar terms and a risk-based approach with principle-based requirements) would enhance the confidence of stakeholders and users in the quality of the audit. Respondents from accounting firms also commented it would help with transitioning between the ISA for LCE and the ISAs, and for training & education purposes.

⁴ The views in this section were expressed when responding to a range of different questions and so no individual theme has been included for this topic area in **Supplement 2**, unless otherwise indicated.

⁵ Comments on this topic area were expressed in response to questions 17(a)-(b), as well as in more general comments.

The Design of the Standard

45. Across stakeholders who both agreed or disagreed with the approach of using the ISAs as a base, the most frequent theme identified as a concern was that the draft standard needed to be further differentiated from the ISAs to provide value. A concern expressed by respondents was 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 draft standard.

Survey:

A question identical to 7(a) in the EM was asked in the Survey. Respondents expressed general support for the approach to use the ISAs as a base (at 81% with a further 12% undecided or with no view), with commentary that less ISA requirements could be included.

Outreach:

The general support for the approach to base the draft standard on the requirements in the ISAs was consistent with feedback heard during outreach events. However, many participants expressed that more differentiation is needed in order to provide practical benefit and therefore reason to use the draft standard.

Work Performed to Reach Reasonable Assurance

46. Respondents expressed mixed views, or sought clarification regarding, whether an audit performed in accordance with the draft standard should achieve a similar outcome to an audit using the requirements of the ISAs. Respondents from all stakeholder groups noted that if the intention of the IAASB was not to differentiate (or make more efficient) the work effort or documentation requirements for an audit using the standalone standard, that stakeholder expectations may not be met.⁶ An accounting firm and a NSS described the results of field testing performed using the ED-ISA for LCE noting that there were no significant differences between performing an audit using ED-ISA for LCE or using the ISAs.
47. Respondents broadly supported the IAASB's intention for the draft standard to achieve reasonable assurance, but certain respondents questioned if all the requirements that were included in ED-ISA for LCE were needed to achieve reasonable assurance in an audit of a typical LCE.
48. In contrast, a regulator and other NSS expressed concern that, even as currently drafted, ED-ISA for LCE may not achieve reasonable assurance due to certain requirements from the ISAs being omitted, and due to the lack of comprehensive application material to support implementation of requirements (discussed further in paragraphs 56-58). One respondent did question whether re-consideration should be given to the draft standard providing a lower level of assurance than reasonable assurance.
49. While supporting the objective of obtaining reasonable assurance, one NSS reminded the IAASB that reasonable assurance is not a concept that can be numerically defined, but rather represents a range based upon cost-benefit decisions at the assertion level. It was noted that no two audits obtain precisely the same level of assurance, even if the same audit is performed by two different auditors. The respondent commented that if the draft standard is properly written to cover those matters relevant to audits of financial statements of LCEs, there should be virtually no impact on the assurance obtained in the vast majority of audits of financial statements of LCEs (compared to the application of the ISAs).

⁶ This view was expressed in response to questions 1(a), 7(a) and 17(a)-(b), as well as in more general comments.

Opportunities for Further Differentiation from ISAs

50. Mixed views were expressed whether the overall work effort should be reduced or changed through using ED-ISA for LCE (compared to using the ISAs). Respondents questioned if any real “efficiencies” would be made by just modifying the language of relevant procedures required by the ISAs in order to enhance understandability. It was suggested to rather be less granular on how an auditor might achieve the objective (i.e., achieve the same outcome) through performing the relevant procedures.
51. In particular, the areas of risk identification and assessment, including the understanding and evaluation of the components of the system of internal control (in particular the evaluation of the entity’s risk assessment process), quality management and accounting estimates were identified as areas where there was further opportunity to appropriately reduce the complexity of requirements and related documentation. An example provided related to auditors understanding of the components of the entity’s system of internal control where it was commented 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.
52. Respondents including accounting firms, NSS and PAOs commented that clarifying the documentation that was appropriate to demonstrate the outcome of audit procedures was an area where efficiency could be gained. A PAO noted that documentation was important when considering regulatory inspections where findings are often raised for insufficient documentation, i.e., where auditors have to document reasons why they have not performed certain procedures that they deemed as unnecessary in the context of the audit.
53. When providing views on how the draft standard could be further differentiated from the ISAs, 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. Comments noted the overly prescriptive nature of some requirements and encouraged the IAASB to be more “daring” with their approach to differentiate the LCE standard from the ISAs⁷. Respondents also encouraged the greater use of conditionality in requirements.
54. Accounting firms, PAOs and a public sector organization viewed that it would be more appropriate to start from what is relevant for an audit of an LCE (“bottom-up approach”) rather than to start from the ISAs and remove requirements (“top-down approach”). PAOs also suggested the use of a modular approach, for example to include modules for conditional or “one-off” complex areas.
55. Respondents suggested that including some requirements that may be different (or additional) to those in the ISAs, but more appropriate to the unique circumstances of LCEs would be appropriate in certain areas (i.e., rather than only starting from the requirements in the ISAs and scaling them or removing those not relevant). Examples provided included specific procedures relevant to entities that may be owner managed, or procedures to be performed when management does not make any formal going concern assessment.

⁷ As described in paragraph 206, there was support for the more innovative approach to structuring requirements in Part 9 of ED-ISA for LCE. When providing comments in this area, respondents encouraged the IAASB to continue to be innovative in other areas where appropriate.

Outreach:

The feedback to further focus on identifying appropriate requirements most relevant to LCEs, even where they may not be the same as existing ISA requirements, was also identified during outreach activities, particularly among practitioners that focused on audits of LCEs.

The Sufficiency of Guidance

Monitoring Group Views

56. One MG member noted that the draft standard did not provide enough guidance to auditors to effectively implement the requirements and will therefore result in a deterioration of audit quality. The MG member commented that paragraph 19 of ISA 200⁸ states that “the auditor shall have an understanding of the entire text of an ISA, including its application and other explanatory material, to understand its objectives and to apply its requirements” and as explained further in paragraph A61 of ISA 200, that application and other explanatory material may “explain more precisely what a requirement means or is intended to cover.” The MG member commented that it was unclear how an auditor would be able to understand and apply the requirements with such limited application material being included from the ISAs.

Other Respondents

57. Other substantive comments to the overall nature of the draft standard related to the sufficiency of guidance.⁹ Respondents, including regulators, observed that although the requirements in the ISAs were included almost in their entirety in ED-ISA for LCE (although presented in a different order, format or summarized), there was very little application material from the ISAs that was included in ED-ISA for LCE. Regulators and other stakeholders, including accounting firms expressed this may lead to inconsistent or insufficient application of requirements, with comments noting this may worsen as practitioners’ current knowledge of the ISAs may fade over time.
58. However, alternative views were expressed on this matter, with other respondents supporting the overall sufficiency of guidance that was included in the body of the draft standard, noting additional guidance may also be provided outside of the draft standard, for instance as implementation or non-authoritative guidance.

Survey:

The Survey contained a specific question on whether the Essential Explanatory Material (EEM) included in the draft standard was sufficient to be able to effectively implement the requirements, with 65% of respondents agreeing (10% answered “no” with a further 25% undecided or with no view). Responses were relatively consistent across stakeholder groups.

⁸ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

⁹ Views on the overall sufficiency of guidance were expressed in response to question 1(a), 7(a), as well as in more general comments. The EM included a question (7(d)) asking for detailed comments on Essential Explanatory Material (EEM) which has not been included in the analysis for this paper, but will be brought to the Board for discussion in the future.

Outreach:

Mixed views were heard on the overall sufficiency of guidance during outreach activities, with many participants suggesting more guidance would be useful or needed, but with no strong consensus on whether this should be supplementary or implementation material rather than included in the body of the draft standard as EEM. Regulators expressed concern that insufficient guidance may lead to quality risks in the future.

Reporting Considerations – Reference to ED-ISA for LCE

59. Respondents, including accounting firms, NSS and PAOs, challenged the need to refer to the ISA for LCE in the auditor’s report, given the draft standard achieves reasonable assurance, and taking into account that ED-ISA for LCE is currently drafted so that the procedures an auditor would perform using both the draft standard and the ISAs could be perceived to be substantially the same. This wasn’t a view shared by other respondents, who expressed that transparency to the users about which standard(s) was used is important.

Interconnectedness of Concerns and Challenges

60. Due to the interrelated nature of a number of the key issues that have been raised by respondents, any decisions about future direction that may be taken to amend the draft standard may have a consequential impact on other areas. For example, being more specific about the scope of entities for which the draft standard can be used (that may narrow the scope) may result in a reduction in the requirements needed in the draft standard.

Task Force Views & Recommendations

Summary of Recommendations:

- (a) To facilitate a common understanding of a ‘typical LCE’ for which the draft standard is designed, and to better enable appropriate changes to be made to the draft standard, a description of a ‘typical LCE’ for the purpose of the standard (for discussion) has been presented.
- (b) The draft standard needs to be further differentiated from the ISAs through the use of less granular, principles-based requirements, where appropriate (focused on targeted areas).
- (c) The draft standard should continue to include limited EEM, with any changes to the EEM to address more targeted comments (i.e., rather than change in overall approach).

What Types of Entities was the ED-ISA for LCE Designed for?

61. In the view of the Task Force, one of the more overarching matters that has caused some of the more pervasive challenges with regard to the draft standard is that it is not clear about the types of entities for which the draft standard has been designed. The Task Force recognizes that there is a range of entities that could use the draft standard, but agreed that this “range of entities” should be described so that there is a common understanding by all stakeholders about the types of entities for which the draft standard is designed (at least in terms of establishing a global baseline). The Task Force is of the view that once established this will help with making changes to the draft standard to address some of the other more pervasive challenges and concerns, such as describing the Authority and further differentiating the draft standard from the ISAs.
62. The Task Force discussed the types of entity for which the draft standard should be designed and how that may differ from those entities that may fall into scope of the draft standard using the Authority as set out in Part A of ED-ISA for LCE. With the benefit of the input from respondents

to the ED, the Task Force agreed that the scope was not clearly described in ED-ISA for LCE and could therefore be judged to be too broad. Based on the responses received, the Task Force agreed that the scope needed to be better articulated to describe the range of ‘typical LCEs’ for which the draft standard is intended, and that it needed to be clearer what the ‘range’ of entities could be. In considering this ‘typical LCE’ the Task Force also recognized that this may narrow the scope.

63. The Task Force deliberated how to describe the range of entities that should fall within the intended scope of the draft standard through describing a ‘typical LCE.’ The following sets out a high-level description of some of the more easily determinable characteristics of a ‘typical LCE’ (this represents the Task Force’s initial indicative thinking, informed by Task Force members’ own experience, respondents’ comments, and previous information gathering activities):

<i>Entity’s business activities, business model & industry</i>	<ul style="list-style-type: none"> • Does not give rise to significant pervasive business risks¹⁰ (for example emerging industries such as crypto trading). • No specific laws or regulations that govern the business activities that add complexity (e.g., prudential requirements).
<i>Organizational structure and size</i>	<ul style="list-style-type: none"> • Straightforward structure with few reporting lines or levels. • Small key management team (e.g., 5 individuals or less). • Less than 250 employees.
<i>Nature of Finance Function</i>	<ul style="list-style-type: none"> • Centralized finance function, including centralized activities related to financial reporting. • Few employees involved in financial reporting roles (e.g., 5 or less).
<i>Information System</i>	<ul style="list-style-type: none"> • Entity uses commercial software and does not have access to the source code to make any program changes (other than to configure the software (e.g., the chart of accounts, reporting parameters or thresholds)). • Access to the software is generally one or two designated individuals with administrative access to the software to make the configurations. • Few formalized general IT controls are needed in the entity’s circumstances.
<i>Application of the Financial Reporting Framework and the Financial Reporting Process</i>	<ul style="list-style-type: none"> • When there is a need for significant management judgment, 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.

¹⁰ Paragraphs A63 and A64 of ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, includes examples of business risks increasing the susceptibility to risks of material misstatements.

<i>Other Factors</i>	<ul style="list-style-type: none"> • Entity’s transactions result from few business activities or revenue streams. • Ownership structure that facilitates clear transparency of ownership and control.
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64. The characteristics of a ‘typical LCE’ in the table above are not intended to be absolute, i.e., if an entity does not exhibit all of these characteristics it would not be classified as an LCE for the purpose of using the draft standard. Rather such characteristics help formulate an overall picture of a typical LCE to establish a common understanding of the type of entity that the draft standard is intended for. How this description impacts the Authority of the draft standard, and consequential changes, are discussed further in the Task Force Views & Recommendations in **Section V**.
65. The description above of a typical LCE for which the draft standard is designed has been used to guide the Task Force when forming the views and recommendations included in the remainder of this Agenda Item.

The Design of the Standard

66. The Task Force discussed the views expressed regarding using the requirements in the ISAs as a basis for the requirements in the ED-ISA for LCE. The Task Force acknowledged the general support for using the ISAs as a basis, while also recognizing the strong view that the draft standard needed to be further differentiated from the ISAs in order to meet stakeholder expectations.
67. The Task Force deliberated how the draft standard could be further differentiated from the ISAs, while still achieving reasonable assurance in an audit of a typical LCE. The Task Force shared the view expressed by respondents of the ED-ISA for LCE that some requirements included in ED-ISA for LCE could result in documentation that was unnecessarily detailed or granular for a typical LCE.
68. The Task Force also acknowledged the views of respondents that ED-ISA for LCE may include more prescriptive, granular requirements than should be necessary for a typical LCE to achieve a similar outcome from performing some of the procedures. The Task Force therefore considered how changes could be made to the draft standard more broadly to reflect requirements that more appropriately describe the auditor’s procedures for a typical LCE, while maintaining the quality of the audit and the level of assurance obtained.
69. The Task Force discussed whether revisions to the draft standard needed to be made holistically (i.e., the approach to the entire draft standard would be considered for potential revision), or rather to focus on specific areas that were noted by respondents to be areas where further revisions would be particularly impactful for an audit of a typical LCE. In considering the responses to ED-ISA for LCE, and the views of participants at the Third Paris Conference¹¹, the Task Force is of the view that on balance there was a greater call for further consideration of specific areas, and not a revision to (rewrite) the draft standard more holistically.

¹¹ Participants at the Third Paris Conference generally did not support a fundamental rewrite of the draft standard. Participants called for targeted changes in the areas of documentation, communication, risk identification and assessment (including internal control) and accounting estimates.

70. Accordingly, the Task Force had the view that revisions should be explored for those areas identified as most impactful, including but not limited to:
- (a) Risk identification and assessment, including the understanding of the entity's system of internal control (i.e., Part 6 of the draft standard).
 - (b) Accounting estimates (this is discussed further in **Section IV**).
 - (c) Responsibilities for quality management.
 - (d) Documentation requirements.
71. The Task Force also noted that additional areas of focus would be informed by the detailed analysis of responses to questions included in the EM, including where respondents were asked for views on the content of each Part of ED-ISA for LCE.¹²
72. The Task Force also broadly discussed how the requirements within these identified areas could be revised so as to make them more focused on the typical circumstances of an LCE, while differentiating the requirements within the draft 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 more principles-based manner, that would achieve a similar outcome, but without the granularity needed for more complex circumstances. In doing so, the Task Force also remains mindful that as the requirements are differentiated from the ISA requirements, it will be important to maintain the 'key' aspects for each topic so as not to lose the ability to obtain reasonable assurance.
73. The following sets out some initial views about how this could be done:

Part 6 of ED-ISA for LCE requires the auditor to obtain an understanding of the five components of internal control, consistent with what is required by ISA 315 (Revised 2019). The requirements in ED-ISA for LCE relating to the auditor's understanding of the components of the entity's system of internal control have been changed, as appropriate for the typical circumstances of an LCE (for example, some of the granular requirements in obtaining an understanding of the control environment have not been included as they would likely not be relevant). But the broad approach to understanding the five components has been retained.

Respondents to ED-ISA for LCE have encouraged the IAASB to further consider whether there is a more appropriate approach to understanding the entity's controls that is better suited to the typical nature and circumstances of an audit of an LCE.

In understanding and evaluating the five components of the entity's system of internal control, the auditor is, in effect, understanding how the entity identifies its risks and responds to them, and thus assists the auditor in the identification and assessment of risks of material misstatement. Taking into account that a 'typical LCE' would have less structured or 'simpler' controls, consideration could be given to obtaining the necessary understanding of the controls in context of the 'typical LCE.' For example:

- Higher level requirements could be developed to focus on the 'indirect' controls (i.e., incorporating the control environment, the entity's risk assessment process and the process to monitor the system of internal control) and 'direct' controls (the information system and the control activities). This could be done through combining components relevant to indirect and direct controls.

¹² The EM included questions 9, 10 and 12 which asked for views on the content of Parts 1 through 9 of ED-ISA for LCE.

- In combining the components in the ‘indirect’ controls, the focus would be on the control environment that is foundational to the audit. Consideration will need to be given to how to incorporate the auditor’s consideration of the risk assessment process and the process to monitor the system of internal control without the granular requirements that are currently included, as there are areas that may be less structured or ‘simpler’ in a ‘typical LCE.’
- In combining the components in the ‘direct controls,’ consideration could be given to how to focus the auditor on those controls for which D&I (i.e., the determination whether the control exists and understanding whether the control has been implemented) is required, including that the identification and evaluation of risks arising from the use of IT and general IT controls may be ‘simpler’.

74. In revising the requirements within the identified areas, the Task Force notes that consideration of the ‘typical LCE’ as described in paragraph 63 will help in exploring the appropriate requirements that are needed for the audit of an LCE.
75. Lastly, the Task Force recognizes that reducing the volume or nature of the requirements in the draft standard may help to differentiate it from the ISAs and better meet the expectations of certain stakeholders. However, it may also increase concerns that the draft standard does not enable the auditor to obtain reasonable assurance and may exacerbate the concerns of those who believe that two sets of standards will cause confusion.

The Sufficiency of Guidance

76. The Task Force discussed the mixed views of respondents relating to the sufficiency of guidance included within ED-ISA for LCE, keeping in mind that the intention had always been to publish the standard with additional supplemental or implementation guidance. It was also noted that the IAASB would digitize the standard (in the digital [eIS IAASB Handbook](#)) thereby improving the accessibility of any related guidance.
77. ED-ISA for LCE contains EEM where essential to understanding or applying a requirement(s), or where it was considered that explanatory material is crucial to support the requirements or concepts used. The EEM did not generally focus on the “why” or “how” of undertaking an audit procedure. Considering that the proposed standard is designed to be proportionate to the typical nature and circumstances of an LCE (with proposed revisions to scope as outlined above) and the role of implementation guidance, the Task Force has the view that the overall approach to EEM within the draft standard does not need to change. Nevertheless, the Task Force did recognize that there were some specific areas identified by respondents where further EEM would be appropriate (i.e., that targeted revisions could be made). The EM included a specific question (question 7 (d)) on the content, sufficiency, and presentation of EEM, the future analysis of which will support those areas that need to be addressed, with proposed changes to be presented at a future Board meeting.

Reporting Considerations: Reference to ISA for LCE

78. The Task Force considered the views of respondents who questioned whether the auditor’s report provided when performing an audit using the draft standard should refer to the ISAs rather than to the ISA for LCE. The Task Force maintains the view that it is important to be transparent about which standards were used to perform the audit and therefore the report should refer to the ISA for LCE.

79. The Task Force also noted that further differentiating the draft standard from the ISAs may help to reduce confusion as to the difference between the two sets of standards, with a clearer need to assert compliance with the ISA for LCE. However, the Task Force agreed that this matter should be revisited once the more substantial changes to the draft standard have been made.

Matters for Board Consideration

1. The Board is asked for its views on:
 - (a) The description of a ‘typical LCE’ as set out in paragraph 63, 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.
 - (b) The Task Forces recommendation to further differentiate the draft standard from the ISAs through the use of less granular, principles-based requirements focused on the targeted areas described in paragraph 70 (and subject to any additional areas that may be identified as described in paragraph 71).
2. Does the Board agree with the Task Force’s recommendations to continue to have limited EEM within the draft standard, 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)?

IV. The Standalone Nature of the Draft Standard

80. The IAASB developed ED-ISA for LCE as a standalone “self-contained” standard. The draft standard is separate from the ISAs with no direct reference back to the requirements in the ISAs in its application.
81. During the development of ED-ISA for LCE, the IAASB extensively debated whether the draft standard should be truly standalone or whether it should be used in conjunction with the ISAs in certain (appropriate) circumstances. Although there are benefits to both, the IAASB concluded that on balance giving auditors the ability to refer to the ISAs may create further challenges and issues, or other unintentional consequences, such as inappropriate use of ED-ISA for LCE or difficulty demonstrating or reporting which standards have been complied with.¹³

What We Heard

See **Supplement 2** (sheets “1(a)” to “1(c)”) & **Supplements 2-02, 2-03 & 2-04**.

82. When providing views on the standalone nature of the draft standard, including detailing any areas of concern in applying the draft standard, or possible obstacles that may impair this approach (question 1(a) in the EM), respondents provided views on both the project to develop a separate standard for LCEs (discussed in **Section II**), the overall basis of the design of the draft standard (discussed in **Section III**) and the standalone nature of the draft standard (discussed in this section).

¹³ See EM to ED-ISA for LCE, paragraph 28

Overall Views

83. There was broad support for the standalone nature of the draft standard with more respondents agreeing with the approach, or agreeing but noting some concerns that would need to be addressed. There were also respondents (in particular accounting firms and regulators) where their views were unclear or who disagreed with the standalone approach.
84. As the nature of concerns expressed in the responses were generally similar regardless of whether there was agreement with the approach to a standalone standard or not, the “L2” analysis¹⁴ at **Supplement 2** (sheet “1(a)”) is presented as grouped by similar theme.
85. The most common concerns expressed related to the inability to refer to the ISAs (a range of different concerns), and the need for action to change perceptions about the separate standard.

Supporting Views

86. Supporting comments noted the standalone approach:
 - (a) Provided the benefit of having all relevant requirements in one document that was easy to read and navigate.
 - (b) Avoided unintended practical issues that result from referring to the ISAs (e.g., confusion over reporting, justifying audit work to regulators etc.).
87. It was also noted that by being standalone, it would encourage a sufficiently thorough evaluation by the auditor of whether the standard is relevant to apply (as the audit would have to transition to the ISAs if it was later found not to be appropriate).

Monitoring Group Views

88. Notwithstanding the overall lack of support for the project, one MG member expressed concerns specific to the standalone nature of the draft standard including:
 - (a) Questioning how the auditor will be able to understand and apply the draft standard without a full understanding of the ISAs, especially when coupled with limited application and explanatory material (also discussed in **Section III**, paragraph 56).
 - (b) The need to transition to the ISAs or other auditor standards when complexities arise (for example when a material uncertainty related to going concern exists and when potential fraud activities are detected since in these situations the risk can increase in various areas). The MG member expressed concern that switching to the ISAs part-way through an audit might be difficult and may lead to additional time when compared to applying ISAs at the outset of the audit. The MG member also noted concern that auditors would not be able to identify complex situations without an understanding of the ISAs.
89. The other MG member who responded to the ED-ISA for LCE did not specifically provide comment in this area.

Inability to Refer to the ISAs

90. Respondents questioned the prohibition described in paragraph 28 of the EM (“relevant ISA requirements *cannot* be used to “top-up” ED-ISA for LCE”) noting that this wording was not included in the text of the draft standard. It was also noted that including such an explicit prohibition in the draft standard would contradict paragraph 1.3.3.(a) of ED-ISA for LCE which requires the auditor to determine whether any audit procedures in addition to those required by

¹⁴ See **Supplement 1** (Section C) for further explanation of how themes are presented in Supplement 2.

the relevant Part are necessary to achieve the objectives stated in the draft standard. Respondents also noted a contradiction with paragraph 2.2.2 that states “the auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient, appropriate audit evidence.”

91. Respondents, including NSS, accounting firms, PAOs and others, expressed that the decision whether to refer to the ISAs should be left to the auditor's professional judgment for:
 - (a) Guidance (e.g., to help them perform procedures that are included in both the draft standard and the ISAs and that are similar, but may be explained in more detail or granularity, or be accompanied by more application material within the ISAs); or
 - (b) Additional procedures that the auditor may choose to perform voluntarily.
92. Respondents also commented that practitioners who already understand the ISAs may naturally draw upon their knowledge and experience to “uplift” procedures when performing audits using ED-ISA for LCE. Therefore, while clarification was needed, caution was expressed to not include such rigid language (i.e., “...cannot be used”) in the draft standard. One PAO noted that such an explicit prohibition may also cause regulators to make different judgments about which procedures should be applied.
93. With regards to whether the auditor may use the ISA requirements to address matters not addressed in the draft standard, i.e., for matters or circumstances that were not contemplated in the design of the draft standard (e.g., complex accounting estimates, the use of internal audit, certain instances of the use of service organizations), different views were expressed.
94. Respondents who supported the ability to utilize requirements in the ISAs referenced the approach permitted when using the International Financial Reporting Standards for Small and Medium Entities (IFRS for SMEs), where there was the ability to use and report under IFRS for SMEs while using certain “full” standards from IFRS, where deemed appropriate. Mixed views were expressed on the uptake and user perception of IFRS for SMEs, but no respondents noted that such ability caused practical difficulties (e.g., for reporting or regulatory purposes).
95. Respondents noted that even where the initial evaluation to use the draft standard was performed appropriately, areas of complexity may still be discovered, or occur unexpectedly during the audit (for example the discovery of an isolated accounting estimate) and that may not be deemed pervasive to the complexity of the entity as a whole. As drafted, the auditor would need to transition to the ISAs, which was viewed as burdensome by respondents¹⁵. Respondents also noted that many entities that would otherwise meet all of the requirements to use the draft standard may have an accounting estimate that could be considered complex as described under the Authority of the ED-ISA for LCE.
96. A PAO suggested that a potential solution may be to allow the ability to refer to the ISAs where isolated “complex” matters occur during the audit, but accompanied by a requirement for the auditor to reassess the use of the draft standard in the next engagement period. The potential solution to allow the ability to top-up in limited circumstances was also suggested. A PAO suggested that in rare and exceptional circumstances the auditor should be able to supplement with added “modules” for specific discreet areas of the ISAs.

¹⁵ Comments expressed by respondents regarding transition concerns were similar to those expressed by MG members as discussed in paragraph 88(b).

Other Key Themes Identified

97. Other key themes that respondents raised regarding the standalone nature of the draft standard included:
- (a) The perceived similarity of the ED-ISA for LCE to the ISAs (discussed in **Section III**, paragraphs 45-55).
 - (b) The need to change user perception on the separate standard (e.g., by providing education) (discussed in **Section II**, paragraph 35).
 - (c) That it is burdensome to create and maintain two separate sets of tools, methodologies etc., (discussed in **Section II**, paragraph 29(d)).
 - (d) Fragmentation of the audit profession and the long-term impact to training and the skills of auditors only performing audits under ED-ISA for LCE (discussed in **Section II**, paragraph 29(b)).
 - (e) The sufficiency of guidance within the draft standard (discussed in **Section III**, paragraphs 56-58).
 - (f) The need to refer to ISA for LCE in the auditor's report (discussed in **Section III**, paragraph 78).

Survey:

The Survey also asked for views on this matter, with 84% of respondents agreeing with the standalone nature of ED-ISA for LCE (with 11% disagreeing, and 5% with no view).

Where respondents agreed with the standalone nature, reasons provided in explanatory comments included understandability and ease of use (i.e., no need to refer elsewhere) and it being easier to ensure compliance with all necessary requirements.

Where respondents disagreed with a standalone standard, they expressed concern over the length of the document and general confusion distinguishing between the standards. Other suggestions included the ability to cross reference only to application material within the ISAs and the ability to refer to the ISAs in limited, specific areas.

Outreach:

Participants at outreach events generally supported a standalone standard for simplicity and clarity (unless they did not support the project at all), however many participants did express that the ability to be able to refer to or 'top up' the audit with requirements or application material from the ISAs in certain situations, such as the use of accounting estimates or laws and regulations, would be useful.

The Title of the Standard & Other Matters

98. Question 1(b) in the EM asked for views relating to the title of the draft standard. There was broad support for the title included in ED-ISA for LCE across all stakeholder groups. There were, however, a number of comments (from those that supported and did not support the title) relating to terminology:
- (a) Comments expressed that the term "less complex entities" should be more formally defined in order to help differentiate from "SMEs." In contrast, one comment suggested that the term "SME" should be used (rather than LCE) given it's a widely used and understood term. One accounting firm also suggested including both (e.g., "...Audits of Smaller and Less Complex Entities").

- (b) Concerns that by using the name “less” complex entity that it may imply that an audit using the draft standard would be “less” than an audit using the ISAs or require reduced work effort.
 - (c) Suggestions to not use “ISA for...”, particularly if the IAASB decides to further differentiate the draft standard from the ISAs. One NSS noted it may also create confusion about the intended standalone nature.
 - (d) Observation that “less complex” may not be meaningfully understood or translated in a simple or concise manner given its subjectivity (i.e., it is “less complex” than something), rather than the less subjective “non-complex” or “simple.”
 - (e) Suggestion that the title describes the *audit* as less complex, rather than the *entity* (as complexity may arise from the wider circumstances of the engagement as a whole, rather than exclusively arising from the entity).
99. When answering this question, there were respondents that also expressed the view that the draft standard should be included within the ISAs because the level of assurance is the same as the ISAs (and therefore the report would also then refer to the ISAs – as discussed in paragraph 78 above).
100. Question 1(c) in the EM asked for views on any other matters in relation to the overarching positioning of ED-ISA for LCE (Section 4A in the EM). As demonstrated in **Supplement 2** (sheet “1(c)”), all comments were mapped to the location of relevant themes presented in other questions.

Task Force Views & Recommendations

Summary of Recommendations:

- (a) The draft standard should continue to be a standalone “self-contained” standard, with no ability to “top-up” with ISA requirements for specific circumstances (the ISAs may be used as an additional source of guidance).
- (b) The Task Force will continue to explore how procedures for ‘more complex’ accounting estimates can be included in the draft standard (for example in an additional Part).
- (c) The title of the draft standard should not change.

Inability to Refer to the ISAs

101. Consistent with the overall support for the approach expressed by respondents, the Task Force continues to have the view that it is appropriate to develop the draft ISA for LCE to be a standalone “self-contained” standard, i.e., with all the requirements relevant to an audit of a typical LCE included, and with no intended need to reference back to the ISAs. The Task Force noted this approach would aid understandability of the draft standard and transparency about its use, and avoid unintended practical issues as was described in the EM to ED-ISA for LCE (see paragraph 81 above).

Referring to the ISAs for Guidance

102. The Task Force recognized the confusion expressed by respondents regarding whether the intention was to “prohibit” the auditor’s ability to refer to the ISAs. For example, referring to the ISAs for additional guidance to help perform procedures (as described in paragraph 91 above) – but only when the decision to use the proposed ISA for LCE was appropriate for the audit engagement (i.e., the auditor is appropriately ‘in the standard’ with no need to reference back to

the ISAs to enable the auditor to obtain sufficient appropriate audit evidence to support a reasonable assurance opinion). The Task Force agreed that clarification is needed to make clear that such referral for the purpose of additional guidance to the auditor would not be prohibited. The Task Force had the view that this could be done in a similar way to the approach taken in International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, which is also designed as a separate standalone standard designed to achieve reasonable assurance. The Task Force propose the inclusion of wording in the draft ISA for LCE similar to what is in ISAE 3000 (Revised):

ISAE 3000 (Revised), Paragraph A22:

The ISAs and ISREs have been written for audits and reviews of historical financial information, respectively, and do not apply to other assurance engagements. They may, however, provide guidance in relation to the engagement process generally for practitioners undertaking an assurance engagement in accordance with this ISAE.

Possible Drafting for the draft ISA for LCE:

When an audit engagement is undertaken using this [draft] standard, the ISAs do not apply to the engagement. They may, however, provide additional guidance in relation to the audit procedures performed in accordance with this ISA for LCE.

Referring to the ISAs for Requirements

103. The Task Force deliberated whether the auditor may use the ISA requirements to address complex matters or circumstances not contemplated in the design of the draft standard, (i.e., to “top-up” the procedures included in ED-ISA for LCE). The Task Force had the view that this should continue to not be permitted due to the risk of inappropriate use (e.g., where the additional complexity is pervasive to the entity’s business activities or system of internal control, and so may be used contrary to what the intention of the “top-up” would be for because the audit is not that of an LCE), as well as being mindful of other concerns such as relating to auditor reporting.
104. For example, if the entity being audited started a new business activity in a different and emerging industry during the reporting period, this would be likely to increase complexity across the entity’s business operations, information system, financial reporting process and system of internal control. Therefore, it would likely not be easy for an auditor to appropriately determine specific procedures from the ISAs to “top up”, since the audit may no longer be an audit of financial statements of an LCE as contemplated by draft ISA for LCE. The view of the Task Force is that in this instance the ISAs should be used to perform the audit engagement. In addition, in such instances it would be unlikely that the entity would meet the other criteria to use the draft standard.
105. The Task Force were also of the view that, with limited exceptions such as accounting estimates (discussed further below), complex matters or circumstances would generally be known at the beginning of the engagement when assessing whether the standard is appropriate to be used for that audit.
106. The Task Force also considered circumstances where a single area of complexity may occur that may not be deemed pervasive to the complexity of the entity as a whole and where, other than for the one area of complexity, it may be appropriate for the ISA for LCE to be used. The Task Force had the view that accounting estimates was the most common area where this could occur (e.g., an entity with an isolated single, or small group of, complex accounting estimates that may be out of the scope of the draft standard for that reason only). The Task Force noted that a

complex accounting estimate is not necessarily an indicator of complexity for the entity more broadly.

Addressing One Area of Complexity – Accounting Estimates

107. The Task Force deliberated whether recognition should be given in the draft standard to circumstances where there is one area of complexity that would otherwise preclude the use of the draft standard, and if so, how that could be done. As accounting estimates were the most commonly raised area by respondents to ED-ISA for LCE where such an exception is needed, the Task Force focused on accounting estimates.
108. In exploring how to deal with one, or a limited number of accounting estimates, the Task Force remained mindful of the 'typical LCE' and the nature of accounting estimates that would commonly be found within such entities. It was agreed that the accounting estimates in the 'typical LCE' would generally be straightforward, and therefore that the draft standard should include relevant requirements to address such estimates. However, it was also recognized that the 'typical LCE' may also have one or a small number of accounting estimates that may be 'more complex' and it was agreed that the draft standard should also accommodate such accounting estimates.
109. The Task Force acknowledges that the draft standard should be clearer on how to identify those accounting estimates that are 'less complex' versus those accounting estimates that are 'more complex' and intends to further explore how to more clearly explain this within the draft standard. The Task Force noted that a key challenge in this area is that there is not a common understanding of what a "less complex" (or "more complex") estimate is, with interpretations varying between different auditors (as identified by respondents to ED-ISA for LCE and through outreach, including the Third Paris Conference).
110. The Task Force is of the view that the core of the draft standard should contain all requirements to address accounting estimates that are not considered "more complex" (including risk identification and assessment procedures, responding to those assessed risks and evaluation of the audit evidence obtained). However, the Task Force is also of the view that an audit of an LCE, that would otherwise meet the criteria for using the ISA for LCE standard except for one or a limited number of "more complex" accounting estimates, should not be precluded from the scope of the draft standard because of that "more complex" accounting estimate(s). The audit of these accounting estimates could be accommodated through an additional Part to the draft standard that can be used for such situations.
111. The following sets out some initial views about how this could be done:

The additional Part could contain the relevant requirements for obtaining sufficient appropriate audit evidence for these "more complex" accounting estimates. The Task Force would need to further explore how this could be done, subject to agreement by the Board about this approach to addressing "more complex" accounting estimates. In situations where the entity (a 'typical LCE' for all other purposes) does not have any "more complex" accounting estimates this Part would not need to be used. The Task Force would also need to amend the Authority to appropriately describe the treatment of accounting estimates.

112. The Task Force had the view that this would be a more practical and understandable solution than allowing auditors to reference to ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures* for one single topic area. ISA 540 (Revised) expands on how other relevant ISAs are to be applied to accounting estimates. The draft standard may not include some of the relevant requirements from the ISAs and therefore any additional Part developed would need to

recognize additional procedures that may be needed for risk identification and assessment, responding to risks etc. It would also avoid the unintended consequences of reference to the ISAs as described in paragraph 81 above.

Title of the Standard

113. The Task Force considered the comments expressed regarding the terminology used in the title of the draft standard. The Task Force acknowledged that the term “less complex entities” was not defined in the ISAs or ED-ISA for LCE and was less well known than the term “SME”. The Task Force continues to have the view that using the term “less complex” is appropriate given that size is not directly linked to complexity as contemplated in the design of the ED-ISA for LCE. In addition, proposed changes to the Authority of the draft standard to describe what is “less complex” rather than what is “not less complex” (as further described in paragraph 141 below), may improve stakeholders understanding and address some of the concerns raised in this area.
114. The Task Force also continues to have the view that the determination of complexity should be driven by the complexity of the *entity*, and not the *audit response* to the entity’s circumstances, as previously deliberated and concluded on by the Board. The Task Force therefore recommends to not make changes to the title of the draft standard.

Matters for Board Consideration

3. The Board is asked for its views on the 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 (as set out in paragraph 102).
 - (b) Continue exploring how procedures for ‘more complex’ accounting estimates can be included in the draft standard (e.g., in an additional Part), as described in paragraphs 107-112 above.
 - (c) Not make changes to the title of the draft standard.

V. The Authority of the Draft Standard

See **Supplement 2** (sheets “3(a)” to “6”) & **Supplements 2-05 to 2-14**

115. The summary of comments relevant to the Authority of the draft standard (as set out in Part A of ED-ISA for LCE) that have been summarized here relate specifically to how the Authority describes the content of the draft standard, as well as the content of the Authority. Any comments which related more broadly to the basis of design of the draft standard and for which entities the draft standard is appropriate for use have been addressed in **Section III** above.

Implementability of the Authority

116. Although there was support by respondents that the Authority as set out in Part A of ED-ISA for LCE is implementable, many respondents expressed concerns that the Authority as described is unclear. Respondents did, however, recognize the complexities around describing the scope of the draft standard.
117. The respondents who agreed with the approach to the Authority noted that it struck an appropriate balance between prescriptiveness and judgment. While the role of the jurisdictions in setting the

Authority for a particular region was acknowledged by those supporting the approach to the Authority, it was highlighted that more guidance may be needed.

118. The most significant concerns expressed, including by two MG members, noted that the Authority as described:
- (a) Is too open (i.e., needs to be more precise); and
 - (b) Involves too much judgment
- and will therefore lead to inconsistent use of the draft standard.
119. Other substantial comments relating to whether the Authority as described is implementable included specific concerns about certain of the qualitative characteristics, as well as the omission of group audits from the scope of the draft standard (group audits is specifically addressed in **Section VI** of this paper). It was also highlighted that more guidance is needed, in particular with respect to the qualitative criteria. These broader concerns are explained further below.
120. Of the respondents who commented on whether the role of the jurisdictions was clear, the majority of these respondents agreed that it was clear.

Survey:

The Survey included a specific question asking if: the Authority (or scope) of the proposed standard was clear (i.e., adequately describe for which types of entities the use of the ED-ISA for LCE is inappropriate). 81% of respondents answered yes, with 14% answering no and 5% expressing no view.

The Survey also asked regulators, NSS, and PAOs if the proposed role of the jurisdictions was clear and appropriate, with 77% indicating it was (10% answering no and 14% expressing no view).

*Too Much Judgment / Need to Further Refine the Qualitative Criteria*¹⁶

Monitoring Group

121. Two MG members noted that the Authority needs to be more precise (in particular around the qualitative characteristics) and more limited to enable more consistent application to circumstances that are similar.

Other Respondents

122. Other regulators also expressed concern about the inconsistent application of the draft standard because there was too much judgment allowed or the scope is too loosely defined. These respondents encouraged the IAASB to 'tighten' the qualitative criteria (or make it clearer so that judgment is easier to apply). It was also noted that the authority was complex (one respondent described it as a multi-level decision tree with application of judgment and allowable modifications at various levels) and, together with the judgment allowed, would result in inconsistent application).
123. Other stakeholders, including accounting firms and NSS, also held similar views on inconsistent application because there is too much judgment needed, and therefore possible misuse, with further encouragement to refine the criteria to be clearer.

¹⁶ Comments raised relating to specific qualitative characteristics (in particular some comments in response to question 3(c)) have not been addressed in this Agenda Item unless they are broader in nature. Any comments relating to specific items within the Authority not yet covered will be addressed as the qualitative characteristics are more specifically considered.

124. It was also highlighted that the Authority includes too many layers and too many decision makers, which may cause confusion. It was suggested that the prohibited entities be incorporated into the qualitative characteristics in some way to avoid two interrelated approaches that may be confusing and overwhelming.
125. In addition to inconsistent application (between entities as well as between jurisdictions) being an inadvertent consequence of using the Authority as described, respondents also highlighted the following consequences:
- (a) It is hard to use (because its complex) or burdensome to implement, which may further limit the standard's adoption and use.
 - (b) A hesitancy to use if it is not clear what the scope of the draft standard is and could therefore be subject to different interpretations by different stakeholders.
 - (c) With too many considerations (some of which may change during the audit) it may be safer to use the ISAs and therefore not have to transition mid-way through.
 - (d) Too many subjective matters (rather than objective factors) that may require further interpretation may result in the standard being used inappropriately or inconsistently.
126. There was encouragement that the Authority is revised to be clear, unambiguous, provide less room for professional judgment (i.e., the boundaries more narrowly defined) and provide sufficient supporting guidance to implement consistently.

Outreach:

During outreach events participants (other than regulators) generally agreed with the concept of using some judgment to determine the appropriateness of use at the engagement level, however a number of practitioners and PAOs raised concern around potential inconsistencies, in addition to regulator challenge of judgments made.

The Need to Define Less Complex

127. There were respondents who noted concerns about the lack of clarity about what 'a less complex entity' is and encouraged the IAASB to define a less complex entity to provide this clarity. It was further added that the way that the Authority is currently presented may still not be enough to determine whether an entity, overall, is less complex and that the draft standard can therefore be used.

Alignment with IESBA PIE Definition

128. There was encouragement from respondents to align with the final revised International Ethics Standards Board for Accountants (IESBA), *Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* (IESBA PIE definition) for consistency between the standards.

Public Interest Characteristics

129. There was some concern noted about the way that entities with public interest characteristics are described within the draft standard, both generally and in relation to specific types of entities described:
- (a) Concerns about what "public interest characteristics" may mean in different jurisdictions, as well as whether it broadly applied to the public sector (i.e., is the whole public sector scoped out of the draft standard).
 - (b) Further clarifications are needed about what is meant by "whose main purpose is...".

- (c) Further clarifications are needed about those types of entities, including how many, that can be scoped 'out' of the prohibited entities (in particular relating to pension funds and insurance providers).

Specific Concerns About Qualitative Characteristics

130. In addition to the comments about too much judgment more generally, respondents also noted strong reservations about the subjectivity related to the qualitative characteristics described, and therefore the resulting inconsistency in application. In addition, it was noted that auditors would need an in-depth knowledge of the entity to be able to make some of these judgments.
131. 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 draft standard (i.e., describe what is "in" the standard rather than what is "out" of the standard). By focusing on what is 'less complex' this would drive a conscious determination about whether the entity is truly 'less complex' for the purpose of using the draft standard.
132. Concerns were expressed about accounting estimates with high estimation uncertainty being excluded from the scope – it was noted that these may be common in what would otherwise be a less complex entity that would be able to use the draft standard (i.e., this one aspect should not necessarily exclude the entity as a whole). It was highlighted that by excluding such accounting estimates this may either limit the use of the draft standard or allow misapplication of the draft standard by inappropriately justifying that an accounting estimate does not involve high estimation uncertainty when in fact it does, in order to be able to use the draft standard.
133. Respondents encouraged the IAASB to further consider the need for specific qualitative characteristics as the list may not be exhaustive – rather the analysis about whether the entity is less complex should be at a more overall level, with examples of factors that drive complexity that is not contemplated in the draft standard.

Survey:

The Survey included a specific question asking if the qualitative characteristics set out in ED-ISA for LCE sufficiently describe a typical LCE. 77% of respondents answered yes, with 14% answering no and 9% expressing no view.

In explanatory comments respondents raised concern over the judgment needed to interpret the characteristics. However, many acknowledged the difficulty to exhaustively describe characteristics in a way that is appropriate for global application and suggested further illustrative examples.

Use of Quantitative Thresholds

134. The IAASB was encouraged to include quantitative thresholds to help users of the draft standard and others to understand the scope of the standard. It was also added that such boundaries would help clarify the scope of the draft standard and narrow it appropriately. However, there were respondents that did not support establishing quantitative thresholds at a global level but rather leaving this to individual jurisdictions.
135. Respondents also explained that the significant level of judgment involved in determining whether the draft standard is appropriate to use or not will lead to inconsistent outcomes and that there is the risk that larger private entities may inadvertently be 'scoped in.' A possible solution suggested was to describe global thresholds that can be refined as needed at a jurisdictional level.

Outreach

On balance, participants generally noted that the qualitative characteristics ably described an LCE. However, participants expressed concern over the wide range of judgment that could be used when evaluating whether an entity met the characteristics. Many audit practitioners commented that when combined with quantitative thresholds e.g., set at a jurisdictional level, they would be more practicable.

Other Comments Raised Regarding the Authority

Monitoring Group

136. One MG member noted that the scope of the ED-ISA for LCE is unclear and encouraged the IAASB to ensure that the scope of the draft standard is clearly stated.

Other Respondents

137. Although only half of the respondents specifically commented on whether the Authority broadly communicated the intended scoping of the draft standard, there was, on balance, agreement that this would meet the intended outcome from how it was described. However, this was supplemented in many cases that further changes (as described elsewhere on the Authority more broadly) would be needed to fully assist users and other stakeholders understand the scope of the draft standard. The need for further changes to clarify the Authority was also noted by respondents who did not agree that it was clear what the scope of the draft standard is.
138. Other comments raised by respondents included:
- (a) Concerns that by allowing jurisdictions to change the scope of the draft standard at a jurisdictional level the desired global consistency may not be achieved (some jurisdictions may further scope the applicability whereas others may not).
 - (b) Encouragement to rather focus on risk rather than the entity's complexity.
 - (c) That the Authority does not clearly make the link to the content of the draft standard. One respondent explained that the draft standard did not explain what the matters are "that are not contemplated in the design of the standard."
 - (d) That further guidance is needed about how the qualitative characteristics 'in combination' drive the entity away from being considered less complex and therefore the ability to apply the draft standard to such entity.
 - (e) That further education of users will be needed to understand the scope of the standard (as many users would not read the auditing standard or its too complex for users' needs).

Task Force Views & Recommendations

Summary of Recommendations:

- (a) The approach to the Authority will continue to describe a list of prohibited entities and qualitative characteristics to determine whether the standard is appropriate to use or not.
- (b) The Authority should be updated to make clearer what the intended scope is, including:
 - (i) Making changes to the list of prohibited entities as appropriate (specific changes are not proposed in this paper).
 - (ii) Incorporate the description of a typical LCE into the qualitative characteristics.
 - (iii) Updating the qualitative characteristics to describe what is less complex, better reflect the typical LCE for which the standard is designed and be more specific (and direct) about describing each characteristic (where deemed appropriate).
 - (iv) Other revisions to make the Authority more succinct and understandable.
- (c) Explore introducing quantitative threshold(s) to be set at the jurisdiction level.

Overall Approach

139. The Task Force first considered the feedback received from respondents regarding the broader approach to the Authority of ED-ISA for LCE (i.e., the limitations for use described through a list of prohibited entities and a determination based on qualitative characteristics) and discussed whether a change was needed more pervasively to the approach used. While respondents expressed concern with individual prohibitions or qualitative characteristics, along with more general comments around the overall level of judgment, the Task Force had the view that on balance there was not significant concerns expressed about the broader “two-pronged” approach to determining if the use of the draft standard would be appropriate. Accordingly, the Task Force agreed to rather focus on the individual aspects where concerns had been raised.
140. The Task Force noted that the intended objective of the Authority is to ‘implicitly’ describe the content of the draft standard through describing characteristics of entities that would typically be able to use the draft standard. The Task Force acknowledged that the link between the Authority of the draft standard and the content (i.e., the requirements) was not clear. However, the Task Force is of the view that if there was a more common understanding of the types of entities that the draft standard is designed for (as described in paragraphs 61-65), the Authority could be more clearly articulated and the content of the draft standard revised accordingly, and that the link would therefore be clearer.
141. In considering the changes more broadly, the Task Force also considered the suggestion by respondents to describe what is “less complex” (and so what is “in” the standard) rather than what is “not less complex” (i.e., what is “not in” the standard). The Task Force noted that this was deliberated extensively during development of the draft standard, and that it was agreed that the draft standard was articulated to describe what was “out” because when trying to describe what was “less complex” it did not clearly capture all relevant less complex circumstances and therefore was not seen to be beneficial. However, the Task Force also recognizes that by doing it in that way resulted in a scope that could be judged to be too broad because it was not clear

when the ‘complexity limit’ was reached, and the draft standard would therefore not be appropriate to use.

142. The Task Force recognizes that changes are needed to address the scope and that this could be done through more clearly articulating the qualitative characteristics. Possible changes are described in more detail below.

Entities with Public Interest Characteristics

143. The Task Force recognized the issues raised by respondents to ED-ISA for LCE that the interaction between paragraphs A.5. and A.6. and the list of prohibited entities listed in paragraph A.7. is not clear. In particular, the Task Force noted the concerns that it was perceived that all public sector entities may be excluded from the scope of the draft standard because of these paragraphs, and agreed that specific guidance for public sector entities would be needed.
144. The Task Force also noted the intention of paragraphs A.5. and A.6. was to explain the basis for the list in paragraph A.7. and was not intended to create new “requirements.” Accordingly, the Task Force proposes moving the content of paragraphs A.5. and A.6. (that provides useful context) into EEM that follows paragraph A.7. In this way it also may be clearer what the list of prohibited entities is without suggesting there may be others that are left to judgment.
145. With regard to the list of prohibited entities in paragraph A.7., and mindful of the comments from respondents about aligning with the final changes from the IESBA PIE definition project, the Task Force agrees that further changes are needed. The Task Force noted that the IESBA PIE definition project for the purposes of the *IESBA International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) serves a different purpose than the description of classes of entities that may exhibit public interest characteristics in ED-ISA for LCE. The former imposes differential independence requirements that apply to the audit firm or auditor for audits of financial statements of public interest entities (PIEs), and the latter describes classes of entities for which the use of the ED-ISA for LCE may not be appropriate. Notwithstanding that they serve a different purpose, the Task Force did acknowledge respondents’ comments that regardless of the purpose, having differing descriptions of classes of entities that are deemed to reflect significant public interest in the financial condition of these entities (as described for PIEs in the IESBA Code)¹⁷ may cause confusion, and therefore noted the importance of alignment to the greatest extent possible between the Authority and the IESBA Code.
146. However, before any changes are developed the Task Force notes that coordination will be needed with the IAASB’s Task Force exploring whether changes should be made in the ISAs and International Standards on Quality Management (ISQMs) for the IESBA’s PIE definition¹⁸. The Task Force also notes that the targeted timing of that project will likely complete after finalization of the ISA for LCE and therefore further consideration will be needed so as to align the two IAASB projects.
147. ED-ISA for LCE was based on the IESBA exposure draft, which incorporated 4 categories of entity (excluding listed / publicly traded entities) as PIEs – which ED-ISA for LCE aligned with. However, the final pronouncement from the IESBA has changed which entities are treated as PIEs (see below – only two or the original 4 categories have been maintained). Accordingly, in

¹⁷ IESBA Code, paragraph R400.8

¹⁸ See [Project Page](#) for further information.

progressing changes on the Authority further consideration will be given to how to align with the final IESBA pronouncement.¹⁹

R400.17 For the purposes of this Part, a firm shall treat an entity as a public interest entity when it falls within any of the following categories:

- (a) A publicly traded entity;
- (b) An entity one of whose main functions is to take deposits from the public;
- (c) An entity one of whose main functions is to provide insurance to the public; or
- (d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.10.

Reducing the Level of Judgment

148. The Task Force discussed the concerns expressed by respondents, including two MG members, regarding the fact that the Authority, as included in ED-ISA for LCE, was too open (i.e., needs to be more precise) and allowed too much judgment when determining if the draft standard may be used. As explained above, on balance the Task Force was of the view that the approach to setting out the imitations for use of the draft standard, i.e., setting out a list of prohibited entities and then having qualitative characteristics left to the auditor's judgment, did not need to be changed. However, the Task Force did recognize the concerns that the possible wide scope and too much judgment would lead to inconsistent application. The Task Force was of the view that judgment would always be needed because the draft standard has been designed for a range of entities with differing nature and circumstances.
149. The Task Force, however, also considered different ways to address the concerns about inconsistent application and agreed to:
- (a) Revise the qualitative characteristics to make it clearer the types of entities the draft standard is intended for; and
 - (b) Explore how to further encourage or direct the use of quantitative threshold(s) by jurisdictions to further limit the potential scope of entities for which the use the draft standard would be appropriate.
150. The qualitative characteristics included in ED-ISA for LCE are not intended to be mutually exclusive or individually conclusive (i.e., "one and you are out") as not every circumstance would necessarily lead to complexity for that particular entity (for example, an entity may have an independent director only due to being a public sector entity or due to a jurisdictional requirement, but the presence of the director does not add complexity to the entity's financial reporting process, system of internal control, reporting structure etc.).
151. Consistent with discussions with the Board during the development of ED-ISA for LCE, the Task Force therefore have the view that some level of auditor judgment would always be necessary for determining whether the use of the draft standard is appropriate given the nature and

¹⁹ The Task Force noted that the revisions to the IESBA Code anticipated that local jurisdictions would add categories of public interest entities to meet the purpose of the definition, taking into account the facts and circumstances in a specific jurisdiction. Such categories could include pension funds, collective investment vehicles, private entities with large numbers of stakeholders (other than investors), not for profit organizations or government entities and public utilities (R400.18 A2). This is relevant as pensions funds and collective investment vehicles were included in the list of prohibited entities with public interest characteristics in paragraph A.7. of ED-ISA for LCE. How these categories of entity are dealt with in the draft standard will be further considered by the Task Force.

circumstances of the entity (and consistent with the principles-based approach used by the IAASB) and, therefore, that the use of qualitative characteristics remains appropriate. This was consistent with respondents support for the overall approach to the Authority described above.

Revisions to the Qualitative Characteristics

152. Although the Task Force had the view that some level of auditor judgment was needed when evaluating the qualitative characteristics, the Task Force acknowledged respondents concerns that the characteristics (as described in ED-ISA for LCE) may be too subjective, and difficult to interpret and apply consistently. Linked to this is the view that the scope of the draft standard is too wide. The Task Force has therefore discussed revising the qualitative characteristics to better reflect the intended scope of the draft standard to address aspects of both concerns.
153. The Task Force considered that the inclusion of specific quantitative indicators where applicable (for example, indicators of the number of individuals that might be involved in financial reporting) would reduce ambiguity and judgment. The Task Force anticipates that further guidance and examples would be provided through revisions to the accompany non-authoritative guide on the Authority.

Incorporate Quantitative Threshold(s)

154. The Task Force considered the encouragement by respondents 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 draft 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 use of quantitative thresholds may therefore serve as an additional 'backstop' to assist in consistent application and prevent inappropriate use. The Task Force is also of the view that any thresholds should be in addition to the existing approach of using specifically prohibited entities and a determination of a set of qualitative characteristics to determine use of the draft standard.
155. While the draft standard already allows for a legislative or regulatory authority or other relevant local body to set quantitative threshold(s) at the jurisdictional level, as part of their roles and responsibilities described in Part A of ED-ISA for LCE (Paragraph A11), the Task Force considered those comments that suggested that this should be further encouraged or even required. The Task Force also considered the concerns expressed that some jurisdictions may be unlikely to make additional modifications and instead release the draft standard "as is."
156. Although it was suggested that the creation of quantitative threshold(s) at the global level may be more appropriate than each jurisdiction developing their own, thereby creating greater consistency between jurisdictions, the Task Force continues to have the view that thresholds cannot be set at a global level because of the differing nature and circumstances of each jurisdiction that may use the draft standard. However, the Task Force is also of the view that the Authority can more explicitly require or encourage each jurisdiction to set a threshold(s), as this would help with being clearer about the types of entities that the draft standard has been designed for. The Task Force also considered that this may then result in jurisdictions allowing use of the draft standard in different ways, which may further exacerbate inconsistent use of the standard across jurisdictions. However, the Task Force notes that the difference of possible use of the

standard between jurisdictions already exists because the standard is an alternative to the ISAs and some jurisdictions may already intend to allow use of the standard while others may not.

157. The Task Force had mixed views on if quantitative thresholds should be required to be set by jurisdictions, rather than just encouraged. The Task Force considered that by requiring the setting of thresholds, it would help to achieve a more consistent approach across all jurisdictions and reduce the risk of inappropriate use (by acting as an additional “backstop” as described in paragraph 154 above). The Task Force acknowledged however, that some jurisdictions may not have the requisite resources or experience to appropriately set thresholds, or may prefer not to, for example due to already having existing law or regulation determining the use of standards for different types of audits.
158. If thresholds are introduced more explicitly, the Task Force is of the view that supporting guidance could be developed to help support how thresholds can be set at a jurisdictional level. Again, although this may lead to jurisdictions allowing use of the standard differently, it could, for example, be explained in the supporting guidance what the maximum threshold(s) is (for the intended scope of the draft standard), with jurisdictions able to set the thresholds at a lower level. This would therefore help address the concerns about inappropriate use of the draft standard overall as it would be clearer about the type of entity falling within the intended scope of the draft standard.
159. The Task Force discussed what kind of quantitative criteria may be appropriate to use for a threshold(s) and considered how they were consistent with the description of a ‘typical LCE.’ The Task Force considered criteria suggested by respondents that are commonly utilized as a basis for quantitative thresholds for other purposes (e.g., a jurisdictional level audit threshold) such as an entity’s:
- (a) Revenue.
 - (b) Net assets.
 - (c) Total assets.
 - (d) Number of employees.

While not directly linked to complexity, it was noted by the Task Force that (broadly) as the number of employees increase, and the value of key financial measures increase, complexity of the entity may also increase.

160. The Task Force also considered suggestions from respondents that are more closely tied to the nature of the audit (e.g., # of audit hours) but noted that would not be consistent with the principle that the determination for use should not be driven by how the auditor chooses to perform the audit. The use of an engagement risk profile or rating was also discussed but was not deemed appropriate given it would be determined by the auditor or firm methodology rather than a global or jurisdictionally defined measure.
161. The Task Force debated how guidance could be developed to explain how thresholds can be set at a jurisdictional level. It was recognized that while the number of employees may be more comparable between jurisdictions (but not always), criteria measured in a currency unit (e.g., revenue) would differ significantly between jurisdictions. The Task Force considered whether it is possible to express a threshold in currency units (e.g., revenue of CU30m) but acknowledged the practical difficulty of this for some jurisdictions, for example those that have currencies expressed in the thousands of units per USD or Euro. The option of “pegging” the value of a threshold to an existing currency (i.e., so a jurisdiction may translate into their own currency) may not be deemed appropriate for a global standard setter and would still not take into account jurisdictional

differences (i.e., what value may be a proxy for complexity in one jurisdiction may not be in another). The Task Force concluded on balance, that if quantitative thresholds were introduced, explanatory guidance about how this could be done will be needed to make it practicable for jurisdictions to define their own values.

162. Taking into account all of the considerations about introducing quantitative thresholds, the Task Force expressed mixed views overall whether to be more explicit about quantitative thresholds in the Authority (i.e., require or encourage that a jurisdiction set a threshold(s) as part of the Authority). Mixed views were also expressed at the Third Paris Conference, however there was a strong message that if they were introduced this should be up to each jurisdiction to decide what the thresholds are and not set at a global level. NSS at the IAASB-NSS meeting in May 2022 also reinforced the need to set these at a jurisdictional level if introduced. The Task Force is asking for the Boards direction on if quantitative threshold should be more explicitly included in the Authority, and if so whether thresholds should be required or encouraged to be set.

Initial Possible Updates to Part A, Authority

163. To demonstrate how some of the broader views and recommendations of the Task Force described above could be incorporated in Part A, Authority, the possible changes have been set out in **Appendix 4**. The key changes in **Appendix 4** from ED-ISA for LCE are summarized below:

- (a) Revisions to make the Authority more succinct and understandable through:
 - (i) Changing the presentation of existing content to be included in an introductory box or EEM throughout the Part where it is considered more explanatory in nature (to be consistent with the presentation and approach to other Parts of ED-ISA for LCE).
 - (ii) The removal of guidance relating to firm and auditor roles & responsibilities (as the Task Force had the view this would be better situated in the accompanying non-authoritative guide for the Authority, noting that this would help focus this Part on the role of the jurisdiction or those with standard-setting authority only).
- (b) Revision of qualitative characteristics (paragraph A.3.) to:
 - (i) Describe what is “less complex” rather than “not less complex;”
 - (ii) Better reflect the ‘typical LCE’ for which the draft standard is designed; and
 - (iii) Be more specific and direct (where deemed appropriate).
- (c) Inclusion of quantitative thresholds (paragraph A.4.), with guidance to describe the jurisdictions respective responsibility (with initial wording reflecting thresholds being required, subject to board direction as described in paragraph 162 above).

Paragraphs highlighted in grey in **Appendix 4** have not yet been considered by the Task Force and are still subject to change. This includes paragraphs relating to specifically prohibited entities (i.e., listed entities, group audits, entities with public interest characteristics etc.,).

164. The initial drafting presented in **Appendix 4** is designed to illustrate proposed revisions for the key pervasive issues discussed in this paper and do not reflect additional revisions that may be identified through analysis of detailed comments of respondents to ED-ISA for LCE (e.g., respondent comments on individual prohibitions or qualitative characteristics, or other drafting suggestions).

Matters for Board Consideration

4. The Board is asked for its views on the Task Force's views and recommendations on:
 - (a) Continuing to pursue the approach to the Authority of describing the limitations (i.e., describing a list of prohibited entities and qualitative characteristics to determine whether the standard is appropriate to use or not).
 - (b) Incorporating the description of a typical LCE (per paragraph 63) into the qualitative characteristics described in Part A of the draft standard (i.e., in the Authority).
 - (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.
 - (d) Possible changes to the Authority as set out in **Appendix 4**.
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.

VI. The Inclusion of Audits of Group Financial Statements (Group Audits)

165. As explained in the EM, the IAASB's decision to exclude group audits from ED-ISA for LCE was premised on the view that group audits inherently exhibit characteristics of complexity, and consistent with other areas of complexity, should not be included in the scope of the draft standard. The perceived complexity would drive special considerations that would expand the auditor's requirements throughout the audit process.
166. However, during the development of the draft standard, some stakeholders expressed the view that group audits that otherwise meet the requirements to use ED-ISA for LCE should be included in the scope of the draft standard, and that their exclusion could impact the uptake of the draft standard once finalized. Therefore, the IAASB included a number of specific questions on this matter in the EM, in order to further explore the views of stakeholders in this area.

The Inclusion of Group Audits

See **Supplement 2** (sheets "22" & "23(a)-(c)") & **Supplements 2-19 to 2-22**

What We Heard – Inclusion of Group Audits

Monitoring Group Members

167. Neither of the MG members that responded to ED-ISA for LCE provided a view on the exclusion of group audits from the scope of ED-ISA for LCE.²⁰

Other Respondents

168. There was strong support for the inclusion of group audits in ED-ISA for LCE. This support was consistent across stakeholder groups.

²⁰ One MG member did express that the IAASB should consider limitations on the use of the draft standard for group audits, but the comment was in the context of complexity and consistency considerations where the separate audits of the financial statements of components are performed in accordance with different auditing standards than the group audit (i.e., components use ED-ISA for LCE and the group auditor uses the ISAs). These comments are discussed in paragraph 189.

169. Respondents that supported the inclusion of group audits in the draft standard, commented that some group structures are less-complex in nature (i.e., that being a group audit did not inherently lead to complexity) and therefore the blanket prohibition of group audits was inappropriate. Respondents in public practice also described the impact that excluding groups would have, as described further in paragraphs 172–176 below.
170. Of those that agreed with the exclusion (a NSS, accounting firm, public sector organization and PAOs) comments included that groups of entities were inherently complex, or that additional procedures required for group audits added inherent complexity to the audit.

Survey:

The Survey also asked if respondents agreed that group audits should be excluded from the scope of the draft standard. Results were more mixed than expressed in comment letters and during outreach activities, with 50% agreeing with the exclusion (with a further 38% disagreeing, and 12% undecided or with no view).²¹

Outreach:

The support for inclusion of group audits was consistent with views heard during outreach activities, where there was an overall preference to allow the use of the draft standard for audits of less complex groups. This view was expressed by stakeholders (particularly from practitioners & PAOs) from a range of jurisdictions.

Where participants didn't agree with inclusion, it was generally because they believed that group audits were inherently complex, or because of jurisdictional reasons (e.g., group structures are excluded from existing national definitions of small or less complex entities).

171. Some respondents expressed views on the timing of when requirements for group audits could be incorporated into the draft standard. These views are discussed further in paragraph 215.

What We Heard – Effect of Exclusion of Group Audits

172. The EM also asked respondents in public practice to share information about the impact of excluding group audits from the scope of ED-ISA for LCE (Q23), to help the IAASB understand the impact of not including group audits. In particular the EM asked:

- (a) Would you use the standard if group audits are excluded? If not, why not?
- (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 LCEs for the purpose of the draft standard) except for the specific exclusion?
- (c) What common examples of group structures and circumstances within your practice would be considered a less complex group?

173. Respondents that disagreed with the exclusion of group audits generally expressed that such exclusion would (in some cases significantly) impact the uptake of the draft standard in their jurisdiction.

²¹ Mixed views may be due to the nature of the respondent (e.g., those who are not as involved with standard setting may not have considered group audits relevant to them as they may not be informed about or have contemplated the impact of revisions to ISA 600 (Revised) *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, regarding the scope of group financial statements (as discussed in paragraph 176)).

Outreach:

The view that the exclusion of group audits would significantly impact the uptake of the draft standard was consistent with feedback heard during outreach activities.

174. With regard to what % of audits within a respondent’s firm or practice would be group audits that may otherwise be likely to be able to use ED-ISA for LCE (Q23b), few respondents were able to quantify an estimate. Where they could, answers varied from less than 1% to 90%.

Survey:

In response to the same question in the Survey (what % of audits within a respondent’s firm or practice would be group audits that may otherwise be likely to be able to use ED-ISA for LCE) a wide range was also expressed:

Estimated % of Audits	Percent of Respondents
1 – 10%	30.1%
11 - 25%	15.0%
26 – 50%	13.7%
51 – 75%	10.5%
76 – 100%	10.5%
Not applicable	20.3%

175. In response to question 23(a) in the EM, respondents commented that their organization (or in the case of a NSS, regulator or PAO, organizations in their jurisdiction) would still use the draft standard if group audits were excluded, although comments expressed that it would likely be more limited.
176. It was observed by a NSS that under ISA 600 (Revised)²² financial statements of an entity that include the financial information of branches or divisions by means of a consolidation process would be considered group financial statements. As a result of the greater clarity regarding the scope of ISA 600 (Revised), it is likely that more LCEs with branches or divisions would now be considered to be groups than under extant ISA 600.

Survey:

The Survey included a question specific only for practitioners: If group audits remain excluded from the scope of ED-ISA for LCE would you (given the opportunity) operate two sets of standards (e.g., ISA for audits that would not meet the scope requirements and ED-ISA for LCE for LCEs within the scope of the proposed standard)?

In response, 45% of respondents stated they would still use the draft standard, with 22% stating they would not and a further 33% undecided or with no view.

*Survey respondents noted in explanatory comments expected difficulties with working with two sets of standards, consistent with those discussed in **Section II**, paragraph 29(d) (comments noted that difficulties using two set of standards were relevant regardless of the exclusion of group audits unless a practitioner only performed audits of LCEs). Other respondents noted that they were already used to using two sets of standards in their jurisdiction.*

²² ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

What We Heard – Examples of Group Structures & Circumstances that are Considered Less Complex

177. Respondents to the ED-ISA for LCE and Survey, and participants of outreach activities provided examples of group structures and circumstances that they deemed were less complex. Common examples included when:

- (a) All entities would be individually considered an LCE.
- (b) The audit of the group is performed by one engagement team or engagement partner.
- (c) The audit does not involve component auditors or component auditors from outside the network.
- (d) The consolidation process is simple and there are limited intragroup transactions.
- (e) The group may include a holding company and subsidiaries (some or all of which are dormant or with a limited volume of transactions or revenue-generating operations).
- (f) The group is owner or family managed and/or is wholly owned.
- (g) There are limited international operations or the group operates entirely within the same jurisdiction.
- (h) The group has been set up for a specific purpose (e.g., to hold an asset).
- (i) The control environment is simple.

How Group Audits May be Included

See **Supplement 2** (sheets “24 & 25”) & **Supplements 2-23 & 2-24**

178. Question 24 in the EM asked for feedback on (if group audits are to be included) how that should be done. The EM proposed two options:

- (a) The IAASB establishes a proxy(ies) for complexity for when the draft standard may be used (“Option 1”); or
- (b) ED-ISA for LCE sets out qualitative characteristics for complexity specific to groups (“Option 2”), to help users of the draft standard to determine themselves whether a group would meet the complexity threshold.

Q24 in the EM also asked if there were any other ways that group audits could be incorporated into the scope of the draft standard that are not reflected in the alternatives described above.

What We Heard – How Group Audits Could be Incorporated

Overall Views

179. Respondents expressed mixed views on whether the IAASB should establish a proxy for complexity or set out qualitative characteristics specifically for groups. While more respondents preferred Option 2 (the use of qualitative characteristics), respondents also commented that a combination of both options may also be appropriate.

Further Comments

180. Respondents that preferred establishing a proxy for complexity noted that this would make it easier to apply, require less judgment and reduce the risk of the draft standard being used inappropriately or inconsistently applied. Suggested proxies included the following (i.e., the use of the draft standard for groups would be appropriate only in the following circumstances):

- (a) No involvement of component auditors

- (b) Components that only operate in one or few (similar) jurisdictions
 - (c) Where the group is audited by a single firm or network
 - (d) Where the group is wholly owned
 - (e) Where the consolidation would not require adjustments between different financial reporting frameworks.
181. Respondents that preferred the use of qualitative characteristics commented that this would be consistent with the approach taken in the Authority of ED-ISA for LCE to allow for the use of professional judgment and further noted that any proxy(ies) would be unlikely to be a consistent indicator of complexity in a range of group audits. Suggested qualitative characteristics included those relating to:
- (a) The consolidation process used by the group (e.g., sub-consolidations and consolidation adjustments) and complexity in the group accounting (e.g., valuation, acquisitions/divestments, contingent payments).
 - (b) The presence or extent of multi-jurisdiction operations or entity locations.
 - (c) The need to use, and extent of the use of component auditors, including those outside of the firm, network or jurisdiction.
 - (d) The nature of business operations and similarity of operations between components.
 - (e) Characteristics consistent with the qualitative characteristics laid out in paragraph A.9. of the Authority of ED-ISA for LCE but with considerations specific to group circumstances, e.g.,
 - (i) Organizational structure: the complexity of the group's structure, including the number and type of entities (examples of "less complex structures" are described in paragraph 177 above).
 - (ii) Ownership or oversight structures: the number of owners and the relationships between owners and other people or entities, including related parties.
 - (iii) Extent and complexity of transactions including intra-group transactions and consideration of the financial reporting framework used by the group.
 - (iv) The structure and complexity of the group's IT environment and IT systems, including the presence of a shared services center.
182. Alternative suggestions included simply using the current Authority "as-is" (i.e., the group would be assessed against the qualitative characteristics already included in ED-ISA for LCE for assessment of "non-group" entities), the creation of a separate standalone standard for audits of less complex groups, or an approach other than a new standard (e.g., updating ISA 600 (Revised) or releasing considerations as guidance only).

Survey:

46% of respondents preferred the use of qualitative characteristics, with 30% preferring the use of a proxy, 18% with no view and 6% preferring an "alternative way" but not specifying what that might be.

Outreach:

During outreach activities, participants generally preferred an approach that incorporated the evaluation of qualitative characteristics rather than the use of a proxy, although often respondents did believe that the proxies suggested in the EM (e.g., use of a component auditor, cross-jurisdictional activities) should be included in such characteristics. Suggested proxies and characteristics have been incorporated into the list at paragraphs 180 & 181 above.

How Requirements for Group Audits May be Presented

What We Heard – How Group Audits Could be Incorporated

See Supplement 2 (sheet “26”) & Supplement 2-25

183. On balance, there was support for presenting group audit requirements in a separate part rather than including requirements within the relevant parts of the draft standard.
184. Respondents noted that including requirements in a separate part would keep the body of the draft standard more streamlined, easier to use and understandable for audits of non-groups, and make it easier for auditors of groups to see all relevant additional requirements in one place. Respondents also noted that it would be easier to exclude the part if a jurisdiction decided to not allow the draft standard to be used for group audits.
185. Respondents that preferred incorporating requirements for group audits throughout the existing parts generally noted it would be consistent with the ED-ISA for LCEs structure (i.e., following the flow of the audit) and would mean that the requirements are included where those relevant procedures would be performed. Respondents suggested that distinguishing it from the main content (e.g., through colored boxes) would be an appropriate presentation.
186. An innovative presentation within an electronic solution (such as within the IAASB’s electronic handbook) was also suggested (e.g., content being included in a separate part and also presented in (or linked to) individual parts where relevant).

Use of ED-ISA for LCE for Components of a Group²³

187. In addition to responding to the specific questions in the EM regarding the exclusion of group audits from the draft standard, respondents raised questions regarding the use of ED-ISA for LCE for audit work done at components of a group for the purpose of:
 - (a) Audits of the separate financial statements of components (e.g., statutory audits), or
 - (b) A group audit performed in accordance with the ISAs.

Monitoring Group Members

188. One MG member requested clarification of the use of ISA for LCE for audit work at components in group audits performed using the ISAs, noting that the group auditor is ultimately responsible and accountable for ensuring the group audit engagement has been performed under ISAs. The member also noted the potential need for conforming amendments to ISA 600 (Revised).
189. One MG member expressed the view that the use of two sets of auditing standards would create additional complexity for group audits particularly related to stand-alone reports. Specifically, this MG member was concerned about consistency and quality due to the permissibility of ED-ISA for

²³ Comments from respondents in this area have been mapped under Q22 in Supplement 2 (sheet “22”).

LCE for component audits within a group audit performed under the ISAs. They expressed that the IAASB should consider limitations for the use of the draft standard in group audits.

Other Respondents

190. Respondents (including accounting firms, NSS and a PAO) requested clarification and guidance on the permitted use of the ISA for LCE for audit work done at components where the group audit may be conducted under the ISAs, in particular in relation to the responsibilities of the group auditor where this would be permitted, and how work performed by the component auditor under the ED-ISA for LCE may need to be adapted to meet the needs of the group auditor.
191. Respondents, including a regulator, also noted that the IAASB will need to consider any necessary conforming amendments to ISA 600 (Revised).

Outreach:

During outreach events participants also expressed some confusion regarding if ED-ISA for LCE could be used on a component that was part of a group (e.g., on an audit of a component (e.g., an audit of the single entity for statutory reasons)), and if that work could then be used to support a group audit opinion. It was expressed that further guidance would be needed in this area, for both the component auditor and the group auditor, regardless of the future direction the IAASB takes on whether group audits continue to be excluded from the scope of the draft standard.

Task Force Views & Recommendations

Summary of Recommendations:

- (a) The scope of the draft standard should include group audits.
- (b) Requirements relating to group audits should be presented as a separate Part.
- (c) The characteristics of a less complex entity generally also apply to a less complex group (including any quantitative indicators).
- (d) The Task Force will continue to explore how the inclusion of group audits will impact the scope and the Authority of the draft standard.

The Inclusion of Audits of Group Financial Statements

192. The Task Force considered the strong support to include audits of group financial statements in the scope of the draft standard. The Task Force discussed whether such inclusion was consistent with the more refined description of the type of entity for which the draft standard would be appropriate, as described in paragraph 63. Also, taking into account respondents' descriptions of less complex groups and the types of audits that may be considered group audits under ISA 600 (Revised), the Task Force view is that not all group audits inherently exhibit characteristics of complexity, and the draft standard should be revised to include requirements appropriate for less complex audits of group financial statements.
193. The Task Force considered the support for presenting group audit requirements in a separate part rather than including requirements within the relevant parts of the draft standard, and agreed that this would be an appropriate presentation. The Task Force is of the view that there may be an opportunity for requirements in relation to audits of group financial statements to be presented in a more innovative way (similar to the approach taken in Part 9 for Reporting), focusing on the requirements necessary for a less complex group.

How Audits of Group Financial Statements may be Incorporated

194. The Task Force considered the mixed views on how the group audits may be incorporated into the draft standard (including the Authority), and whether the IAASB should establish a proxy for complexity, set out qualitative characteristics specifically for groups or use a combination of both options. In order to better inform its views, the Task Force first discussed what type of group audits should be included, and how that differs (if at all) from the description of a less complex entity already described in the Authority (as discussed in **Section V**). The Task Force view was that the characteristics of a less complex group are broadly the same as those used to describe a ‘typical LCE’ in paragraph 63. The Task Force also noted that, in many cases, each component of a less complex group individually, and the group as whole, would otherwise meet the criteria of a less complex entity.
195. The Task Force considered indicators of complexity that more specifically relate to group audits, including those described in paragraph 158 of the EM, and those suggested by respondents as described in paragraph 181 of this paper. Based on its discussions, the Task Force concluded that indicators of complexity for a group were generally already encompassed in the existing qualitative characteristics above.
196. The Task Force considered the specific numeric examples included in the qualitative characteristics for a less complex entity (for example, number of individuals that would be involved in financial reporting roles) and concluded that, to be consistent with the scope of entities for which the draft standard is designed, the same examples should also apply to the less complex group. For example, a less complex group ordinarily would have the same number of individuals (i.e., 5 or less) involved in financial reporting roles as a less complex entity.
197. The Task Force considered each characteristic that would describe a less complex entity (as described in paragraph 63) and considered that they would also apply to a less complex group. The Task Force then considered if there were any additional indicators of a less complex group (i.e., not already covered by the description of a less complex entity):

Area	Description of a Less Complex Entity (para. 63) - (Also Applies to a Less Complex Group)	Additional Indicators for a Less Complex Group	Other Considerations
<i>Entity's business activities, business model & industry</i>	<ul style="list-style-type: none"> Does not give rise to significant pervasive business risks (for example emerging industries such as crypto trading). No specific laws or regulations that govern the business activities that add complexity (e.g., prudential requirements). 	-	The Task Force noted that complexity resulting from business activities and models common to groups (e.g., multi-jurisdictional activities, significantly different laws and regulations) would not be specific to groups and would be addressed through characteristics already described in the entity specific description.
<i>Organizational structure and size</i>	<ul style="list-style-type: none"> Straightforward structure with few reporting lines or levels. Small key management team (e.g., 5 individuals or less). 	<ul style="list-style-type: none"> Few entities or business units (e.g., 5 or less). 	The Task Force noted that complexity relating to structures common to groups, for example,

Area	Description of a Less Complex Entity (para. 63) - (Also Applies to a Less Complex Group)	Additional Indicators for a Less Complex Group	Other Considerations
	<ul style="list-style-type: none"> Less than 250 employees. 		multiple geographical locations, would be addressed through characteristics already described in the entity specific description.
<i>Nature of Finance Function</i>	<ul style="list-style-type: none"> Centralized finance function, including centralized activities related to financial reporting. Few employees involved in financial reporting roles (e.g., 5 or less). 	-	
<i>Information System</i>	<ul style="list-style-type: none"> Entity uses commercial software and does not have access to the source code to make any program changes (other than to configure the software (e.g., the chart of accounts, reporting parameters or thresholds)). Access to the software is generally one or two designated individuals with administrative access to the software to make the configurations. Few formalized general IT controls are needed in the entity's circumstances. 	-	The Task Force noted that complexity relating to the information systems common to groups (for example use of different information systems for different business activities) would be addressed through characteristics already described in the entity specific descriptions.
<i>Application of the Financial Reporting Framework and the Financial Reporting Process</i>	<ul style="list-style-type: none"> When there is a need for significant management judgment, 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. 	<ul style="list-style-type: none"> Simple consolidation process (e.g., no complex sub-consolidations, simple aggregation/consolidation adjustments, non-complex intercompany transactions). 	The Task Force noted that complexity resulting from judgments common to group situations (e.g., formation, acquisitions, or joint ventures) would be addressed through characteristics already described in the entity specific description.

Area	Description of a Less Complex Entity (para. 63) - (Also Applies to a Less Complex Group)	Additional Indicators for a Less Complex Group	Other Considerations
<i>Other Factors</i>	<ul style="list-style-type: none"> • Entity's transactions result from few business activities or revenue streams. • Ownership structure that facilitates clear transparency of ownership and control. 	-	The Task Force noted that complexity resulting from multiple business units or activities would be addressed through characteristics already described in the entity specific description.

198. Based on the discussion as described in paragraphs 194-197 above, the Task Force debated whether the qualitative characteristics that describe a less complex group would be significantly different to that of a non-group, or whether the existing qualitative characteristics could be revised and described in a way that would form the basis for the Authority for both groups and “non-groups” (with additional “group-specific” characteristics described as relevant). The Task Force noted that further group-specific examples and guidance could be included in the non-authoritative guide on the Authority, as well as other implementation materials.

The Use of Component Auditors

199. The Task Force extensively debated whether the involvement of component auditors was always an indicator of complexity in the group, and if their involvement should preclude the use of the draft standard. The Task Force considered that the decision to use component auditors was often driven by complexity in the group itself, but that it was not always the case. The Task Force considered examples where component auditors may be utilized due to practical reasons, such as the limited availability of resources in a specific geographical region, which may be particularly relevant for SMPs and smaller accounting firms who are not part of a larger network. In some instances, component auditors may be used as a resource similar to how networks may utilize audit staff from other office locations. On the contrary, in other situations a group auditor may need the component auditor’s knowledge of the local entity or environment (i.e., the group auditor wouldn’t be able to do the audit themselves) and so the decision to use the component auditor is not based solely on availability of resources.

200. The definition of a component auditor in ISA 600 (Revised) is “an auditor who performs audit work related to a component for purposes of the group audit. A component auditor is a part of the engagement team for a group audit.”²⁴ The Task Force noted there is a wide range of ways a component auditor may be involved during different phases of a group audit. The Task Force debated whether, for the purposes of determining the appropriate scope of less complex group audits that involve component auditors, it would be appropriate to draw a distinction based on the nature and extent of the work the component auditor performs and the nature and extent of the direction, supervision and review the group auditor provides. For example, if the component auditor is directed to perform limited specified further audit procedures by the group auditor, that may result in less complexity (or fewer additional audit considerations) than if the component auditor is asked to perform risk assessment procedures and then use that knowledge to further plan their audit procedures.

²⁴ ISA 600 (Revised), paragraph 14(c)

201. The Task Force noted that ISA 600 (Revised) includes a number of requirements related to the involvement of component auditors, and that including all related requirements would add significant length and complexity to the draft standard. The Task Force noted that the nature of the component auditor’s involvement in the audit would often determine the extent to which requirements would be relevant (for example ISA 600 (Revised) includes specific considerations where the component auditors are expected to be involved in the design and performance of risk assessment procedures).²⁵
202. The Task Force did not reach a conclusion on how the involvement of component auditors may affect the use of the draft standard (including where relevant, any potential “cut-off” for their inclusion in the scope of the draft standard), but had the view that it would be beneficial to provide a summary of their discussion in this area in order to gain any insights or reflections from the Board that may assist the Task Force to move forward.

Matters for Board Consideration

6. The Board is asked if they agree with the 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.
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 paragraph 197 above.
8. The Board is asked for any relevant reflections on the Task Forces discussion relating to how the use of component auditors may affect the use of the standard.

VII. Other Matters

Overall Design and Structure

See Supplement 2 (sheet “8”) & Supplement 2-16

203. The Task Force analyzed the responses to question 8 in the EM, which asked for views on the overall design and structure of ED-ISA for LCE, including on the application of the drafting principles. Positive feedback was received in this area, particularly with regard the structure, order and drafting style of the ED-ISA for LCE.

²⁵ For example, paragraphs A54, A90, A114 and A149 of ISA 600 (Revised) provide specific considerations for the audit where the component auditors are involved in the design and performance of risk assessment procedures.

Outreach:

Positive feedback on the overall design and structure was also heard during outreach events, in particular from practitioners who found the draft standard easy to read and understand, and particularly liked the ordering of the draft standard. Participants noted that lessons learned should be incorporated into the CUSP drafting principles and guidelines to be used for all IAASB standards.²⁶

204. Individual areas identified for improvement, including those relating to structuring and ordering, drafting suggestions and other individual comments, will be taken into account as the Task Force commences further updates to the draft standard.

Reporting Requirements – Part 9 of ED-ISA for LCE

205. The Task Force also analyzed the responses to questions 10 and 11 in the EM, which asked for feedback on the approach taken in ED-ISA for LCE with regard to auditor reporting requirements, including the presentation and content of Part 9. The approach to drafting this Part was innovative and included a specified format and content of an unmodified auditor's report as a requirement, the presentation of requirements in tables and a supplemental guide with further guidance including further example auditor reports. An initial analysis of the questions on Part 9 were performed to help determine whether significant change in this Part was needed.
206. Respondents generally showed strong support for the approach, in particular the simplified layout and use of tables to present the requirements. Although specific suggestions or comments were provided, for example suggestions for additional requirements to be included or comments regarding the location of illustrative reports in a guide with non-authoritative status, there were no pervasive concerns identified in this area (other than those questioning whether the report should instead reference the ISAs, as discussed at paragraph 78).

Outreach:

The positive reaction to Part 9 of the ED-ISA for LCE was consistent with comments made during outreach events, where participants, in particular practitioners and PAOs, expressed they find the approach innovative and easy to use, and encourage the IAASB to further explore solutions such as this to make requirements more digestible and understandable.

207. Based on the positive feedback provided no further discussion is proposed at this time, with detailed matters relating to reporting to be discussed with the Board in further meetings. The detailed analysis of these comments has therefore not been presented in **Supplement 2** but will be presented at a later time.

VIII. Next Steps

Summary of Recommendations:

- (a) The project to develop a separate standard for audits of LCEs should be continued.
- (b) The Task Force will use the direction provided during the June Board meeting to commence the drafting of updates in targeted areas identified as in need of more significant revisions, as well as a separate part containing requirements for group audits.

²⁶ IAASB staff incorporated knowledge and lessons learned from the drafting of ED-ISA for LCE into the final proposed CUSP Drafting Principles and Guidelines presented to the IAASB in April 2022.

Continuing the Project to Develop a Separate Standard

208. Paragraphs 24 to 35 explained the broader comments received from respondents regarding continuation of the project to finalize the draft standard. **Sections III to VII** set out the more pervasive concerns and challenges related to the draft standard, as well as how the Task Force proposes to address the issues and challenges and progress the project to finalization. The Task Force is of the view that these concerns and challenges can be appropriately addressed as reflected in the Task Force's views and recommendation in this paper. The Task Force is therefore of the view that the IAASB should continue to develop a separate standard for audits of LCEs as directed in the Project Proposal that was approved by the Board in December 2020.
209. In deliberating about continuation of the project more broadly, the Task Force noted that the public interest issues that were identified through the Discussion Paper and which supported the need for the project, as described in the Project Proposal²⁷, would not be addressed if the project is not completed. When agreeing to the workstream to develop a separate standard, the Board identified an urgent need to have an international solution to address issues related to audits of LCEs, particularly as jurisdictions increasingly develop their own standards and commence other initiatives in this area (this 'fragmentation' would not be in the public interest).
210. It is the Task Force's view that the urgent need for the standard continues to be seen, both through stakeholder engagement on the consultation on ED-ISA for LCE, as well as from participants at the Third Paris Conference. The significant interest in the project, as reflected by the comment letters, responses to the Survey and the significant number of individuals and organizations engaging in outreach activities (including Third Paris Conference), illustrates the continuing (and growing) interest in the draft standard. In addition, it was noted that the responses to the ED-ISA for LCE showed there was strong support from stakeholders and jurisdictions where it is more likely there will be a significant uptake of the standard. As summarized in **Appendix 3**, participants at the IAASB-NSS meeting in May 2022 strongly encouraged that the IAASB progress the project in a timely way, noting that there was a continued need for a global solution in this regard (particularly for jurisdictions that may not currently be as experienced with the ISAs).
211. Participants of the Third Paris Conference also stressed a strong global need for a separate focused standard for audits of the financial statements of LCEs with continuing enthusiasm and support to finalize the project. There was a strong message that the standard is particularly needed in developing nations to promote economic development in those economies – even if there was less adoption in some other jurisdictions.
212. The Task Force discussed the concerns raised from stakeholders who did not support the progression of the project, and are of the view that many of the concerns raised can be addressed through changes to ED-ISA for LCE prior to finalization (including for the key issues described in this paper), and through implementation and communication activities (for example, addressing the risk of market confusion through communication and the development of guidance to support the implementation of the standard).

Revisions to the Draft Standard

213. As described in **Section I**, the Task Force will continue to analyze the responses to questions included in the EM that have not been discussed in this paper (i.e., they relate to the more detailed drafting comments and not more pervasively), and bring them for discussion with the Board at an appropriate time based on their significance and the timing of related drafting.

²⁷ Section IV of the Project Proposal discusses how the project serves the public interest.

214. The Task Force intends to use the direction provided during the June Board meeting to commence the drafting of updates in targeted areas identified as in need of more significant revisions (for example the Authority, risk identification and assessment (Part 6 of ED-ISA for LCE) and requirements relating to accounting estimates).

Group Audits

215. Views were expressed within the comment letters that, while many respondents would like to see the inclusion of group audits in the draft standard, they did not want the development of the requirements related to group audits to delay the overall completion of the draft standard. This view was also heard in comments from a NSS and accounting firm that indicated they did not agree with the inclusion of group audits because it was important that the IAASB focus on single entities as a first step, with group audits being considered as a second stage once the draft standard is finalized. Alternative suggestions to inclusion within the draft standard included the release of a standalone standard specific for less complex groups.
216. Given that new content relating to the inclusion of group audits may potentially be significant, it would be appropriate to publicly expose a part containing requirements for group audits in order to meet IAASB due process requirements. The Task Force have the view that the IAASB could commence development of the separate part for group audits at the same time as drafting revisions to the remaining parts of the draft standard. Subject to progression with the Board, the part for group audits could then be released for exposure during 2023, while the draft of the remaining standard is being finalized.

Matters for Board Consideration

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.

Task Force Members and Activities

Task Force Members

1. The LCE Task Force consists of the following members:
 - Kai Morten Hagen, IAASB Member and Task Force Chair; IFAC SMP 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](#).

Task Force Activities Since the June 2022 IAASB Meeting (Virtual)

3. The LCE Task Force held one hybrid meeting, one in-person meeting and five virtual meetings.
4. Details of outreach events in which the ED-ISA for LCE was discussed can be found at **Appendix 2**. This includes events attended by the Task Force Chair, Members or Staff as indicated.

Appendix 2

Outreach Activities

September 2021

- Meeting with IAASB National Standard Setters (NSS) Representatives on the Outreach Plan for ED-ISA for LCE – By Videoconference (Seidenstein, Hagen, Botha, Bahlmann, Fairchild)
- LinkedIn Live Discussion: Session 1 - What Makes the IAASB's Draft Less Complex Entities Standard So Important? – By Videoconference (Seidenstein, Hagen, Bahlmann, Fairchild)

October 2021

- Presentation at the Committee of European Audit Oversight Bodies (CEAOB) – By Videoconference (Hagen, Botha, Bahlmann)
- Presentation and Roundtable on ISA for LCE: French-Speaking Africa, Hosted by the International Federation of Accountants (IFAC) and the Fédération Internationale Des Experts-Comptables Francophones (FIDEF) – Paris, France (Tracq-Sengeissen)
- Presentation at the Independent Regulatory Board for Auditors (IRBA) – By Videoconference (Hagen, Botha, Bahlmann, Fairchild)
- LinkedIn Live Discussion: Session 2 - Who Can Use the Proposed Standard and Will It Be Used? – By Videoconference (Chiew, Bauer, Botha, Fairchild)
- Webinar on ISA for LCE: Africa, Hosted by the Pan African Federation of Accountants (PAFA) – By Videoconference (Hagen, Botha, Bahlmann, Fairchild)
- Closed Meeting with the Small and Medium Practices Advisory Group (SMPAG): Presentation and Breakout Sessions – By Videoconference (Seidenstein, Hagen, Botha, Fairchild)

November 2021

- Closed Meeting with the Forum of Firms (FoF): Deep Dive Discussion on ISA for LCE – By Videoconference (Almond, Corden, Hagen, Botha, Bahlmann)
- Closed Meeting with the International Organization of Supreme Audit Institutions (INTOSAI) Financial Audit and Accounting Subcommittee: Annual Meeting (LCE Discussion) – By Videoconference (Bahlmann)
- Presentation and Discussion, Hosted by the South African Institute of Chartered Accountants (SAICA) – By Videoconference (Hagen, Botha, Fairchild)
- Closed Meeting with the Accounting and Auditing Standard Setting Board of Federación Argentina de Consejos Profesionales de Ciencias Económicas (FACPE) – By Videoconference (Hagen, Bahlmann, Fairchild)
- Presentation & Roundtable: Hosted by the Association of Chartered Certified Accountants (ACCA) – London United Kingdom (Seidenstein, Hagen, Chiew, Bahlmann)
- Roundtable on ISA for LCE: Hosted by the Irish Auditing and Accounting Supervisory Authority (IAASA) – Dublin, Ireland (Hagen, Bahlmann)
- Presentation and Panel Discussion, Hosted by the Institute of Chartered Accountants in England and Wales (ICAEW) – London, United Kingdom (Seidenstein, Hagen)

- Presentation and Panel Discussion: Hosted by Accountancy Europe and the European Federation of Accountants and Auditors for Small and Medium-sized Enterprises (EFAA for SMEs) – By Videoconference (Hagen, Fairchild)
- Presentation and Panel Discussion, Hosted by the Malaysian Institute of Accountants (MIA) – By Videoconference (Simnett)
- Roundtable on ISA for LCE: Asia Pacific, Hosted by the International Federation of Accountants (IFAC), the Confederation of Asian and Pacific Accountants (CAPA) and the South Asian Federation of Accountants (SAFA) – By Videoconference (Chiew)
- Roundtable on ISA for LCE: Europe and Africa, Hosted by the International Association for Accounting Education and Research (IAAER)– By Videoconference (Hagen, Marten, Botha, Bahlmann, Fairchild)
- LinkedIn Live Discussion: Session 3 - What Could the Proposed LCE Standard Mean to Firms and Practitioners? – By Videoconference (Corden, Fairchild)
- Roundtable on ISA for LCE: Asia and Oceania, Hosted by the International Association for Accounting Education and Research (IAAER)– By Videoconference (Chiew, Jui, Simnett, Botha, Fairchild)

December 2021

- Roundtable on ISA for LCE: Central and South America, Hosted by the International Federation of Accountants (IFAC) and the Asociación Interamericana de Contabilidad (AIC) / Interamerican Accounting Association (IAA) – By Videoconference (Ruiz Monroy, Bauer)
- Roundtable on ISA for LCE: Asia Pacific, Hosted by the International Federation of Accountants (IFAC) and the ASEAN Federation of Accountants (AFA) – By Videoconference (Chiew)
- Roundtable on ISA for LCE: The Americas, Hosted by the International Association for Accounting Education and Research (IAAER)– By Videoconference (Corden, Bahlmann, Fairchild)
- Roundtable on ISA for LCE, Hosted by the Pan-African Federation of Accountants (PAFA) – By Videoconference (Tracq-Sengeissen, Fairchild)

May 2022

- Conference & Roundtables on Progressing the New Proposed Standard for Audits of Less Complex Entities – Paris, France (Seidenstein, Hagen, Agéllii, Almond, Bauer, Chiew, Corden, Diolas, Jui, Kai, Shannon, Tracq-Sengeissen, Botha, Bahlmann, Fairchild)
- IAASB NSS Meeting – Discussion on ED-ISA for LCE – By Videoconference (Hagen)

Appendix 3

Summary of Discussions with National Standard Setters: May 2022

The objective of the May 2022 session with the NSS was to provide a high-level update on responses to the ED-ISA for LCE and discuss with IAASB-NSS representatives (NSS participants) two targeted areas:

- (a) How the IAASB can be clear about the types of entities the draft standard is for; and
- (b) Whether quantitative thresholds for scoping the draft standard should be explored.

Representatives provided mixed views about the type of entities the draft standard should be designed for, and how they could be more clearly described, with suggestions including:

- Expanding the scope from ED-ISA for LCE to include all entities other than listed entities or PIEs.
- Expanding the scope from ED-ISA for LCE to include group audits.
- Not expanding the scope past what is included in the ED-ISA for LCE (i.e., keep the same).
- Narrow the scope through the use of additional qualitative characteristics to describe more “obviously less complex” entities.

NSS participants acknowledged the difficulty of describing a less complex entity at a global level and expressed the importance of the role of the local jurisdiction to further refine the Authority of the draft standard, to reflect jurisdictional matters and circumstances. It was noted that this would be consistent with the approach to the definition of PIEs taken by IESBA, where jurisdictions are provided a global “baseline” and expected to further refine the description. One NSS participant noted the concern expressed by some stakeholders relating to inconsistent application between jurisdictions, but did not feel this would be as relevant given the nature of entities the draft standard is developed for. One NSS participant had the view that industry specific examples, along with guidance more generally on professional judgment, would be helpful for auditors when applying qualitative characteristics.

NSS participants provided examples of how quantitative thresholds were used in their local jurisdictions for differing reasons (e.g., for determining if audits are required). Representatives did not generally support the establishment of globally determined thresholds in the Authority of the draft standard, but had the view that it may be beneficial and appropriate for them to be set by local jurisdictions, encouraging the development of further guidance and criteria for this purpose.

During the session, NSS participants strongly encouraged that the IAASB progress the project in a timely way, noting that there was a continued need for the draft standard, particularly for jurisdictions that may not currently be as experienced with the ISAs. NSS participants also encouraged that the IAASB continue to focus on developing the draft standard so that it provide a more efficient and effective approach to delivering high quality audits, and where the auditor still obtains reasonable assurance.

A. [Initial Possible Updates to the] Authority of the [Draft] ISA for Audits of Financial Statements of Less Complex Entities

Paragraphs highlighted in grey have not yet been considered by the Task Force and are still subject to change.

Content of this Part

~~A1. Part A sets out the authority of the [draft] ISA for LCE by describing the specific prohibitions and qualitative characteristics that will make the [draft] standard inappropriate for use in an audit of the financial statements of an LCE.~~

Part A sets out specific prohibitions, qualitative characteristics, [and quantitative thresholds] used for determining if the [draft] standard is appropriate for use in an audit of the financial statements of an LCE.

The requirements in this [draft] ISA for LCE have been designed to be proportionate to the typical nature and circumstance of an audit of an LCE (i.e., they do not address complex matters or circumstances). ~~A.2. This [draft] ISA for LCE is not permitted to be used for audits that are not audits of financial statements of LCEs. If the [draft] ISA for LCE is used for an audit outside the intended scope of this [draft] standard, compliance with the requirements of the [draft] ISA for LCE will not be sufficient for the auditor to obtain sufficient appropriate audit evidence to support a reasonable assurance opinion.~~

The responsibilities of legislative or regulatory authorities or relevant local bodies in determining the Authority of the standard for a specific jurisdiction are described at the end of this Part.

The Supplemental Guidance for the Authority of the Standard (the Authority Supplemental Guide), further explains matters that may be relevant in the determination of use of the [draft] ISA for LCE for firms and auditors.

Limitations for Using the [Draft] ISA for LCE

~~A.3. Limitations for using the [draft] ISA for LCE are designated into ~~two~~ [three] categories:~~

- ~~Specific classes of entities for which the use of the [draft] ISA for LCE is prohibited (i.e., specific prohibitions); and~~
- ~~Qualitative characteristics that describe an LCE, and if not exhibited by an entity would generally preclude the use of the [draft] ISA for LCE for the audit of the financial statements of that entity; and~~
- ~~Quantitative thresholds to be determined by the legislative or regulatory authorities or relevant local bodies in each jurisdiction.~~

~~In determining the use of the [draft] ISA for LCE, all three categories [are required]²⁸ to be considered.~~

~~A.4. This section explains these limitations for use of the [draft] ISA for LCE. The Supplemental Guidance for the Authority of the Standard (the Authority Supplemental Guide) which can be~~

²⁸ For discussion – this will be updated if it is agreed that quantitative thresholds are “strongly encouraged” rather than required.

found on the ISA for LCE Exposure Draft webpage, further explains matters that may be relevant in the determination of use of the [draft] ISA for LCE.

Specific Prohibitions

A.6. Paragraph A.71. sets out the classes of entities for which the use of this [draft] standard is specifically prohibited.

A.7. A.1. The [draft] ISA for LCE shall not be used if:

- (a) Law or regulation:
 - (i) Explicitly prohibits the use of the [draft] ISA for LCE (i.e., the [draft] standard is not broadly authorized for use in a particular jurisdiction); or
 - (ii) Specifies the use of auditing standards, other than the [draft] ISA for LCE, for an audit of financial statements in that jurisdiction.
- (b) The entity is a listed entity.
- (c) An entity meets one of the following criteria:²⁹
 - (i) An entity one of whose main functions is to take deposits from the public;
 - (ii) An entity one of whose main functions is to provide insurance to the public;
 - (iii) An entity whose function is to provide post-employment benefits;
 - (iv) An entity whose function is to act as a collective investment vehicle and that issues redeemable financial instruments to the public; or
 - (v) A class of entities where use of the [draft] ISA for LCE is prohibited for that specific class of entity by a legislative or regulatory authority or relevant local body with standard-setting authority in the jurisdiction.
- (d) The audit is an audit of group financial statements.³⁰

~~A.6. (cont.)~~ A.2. The classes in paragraph A.71.(a) (b) and (d) are outright prohibitions and cannot be modified. Legislative or regulatory authorities or relevant local bodies with standard-setting authority can modify each class described in paragraph A.71.(c) but a class cannot be removed.

A.5. Entities that have public interest characteristics could embody a level of complexity in fact or appearance and are specifically prohibited from using the [draft] ISA for LCE. ~~A.6. (cont.)~~ Modifications can be made by adding a class of entities to the list of prohibited entities, permitting specific sub-sets within a class to be able to use the [draft] standard or using quantitative thresholds to prohibit use of the [draft] standard. Legislative or regulatory authorities or relevant local bodies with standard-setting authority may subsequently remove or amend modifications that they have made.

²⁹ See paragraphs 51–63 of the accompanying Explanatory Memorandum.

³⁰ Consistent with the proposed ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, group financial statements are financial statements that include the financial information of more than one entity or business unit through a consolidation process. The term consolidation process refers not only to the preparation of consolidated financial statements in accordance with the applicable financial reporting framework, but also to the presentation of combined financial statements, and to the aggregation of the financial information of entities or business units such as branches or divisions. This definition may change as ISA 600 (Revised) is finalized. See Paragraphs 62–63 and Section 5 of the accompanying Explanatory Memorandum for further discussion related to group audits.

Qualitative Characteristics

~~A.9.(cont.)~~ The following list is not exhaustive and other relevant matters may also need to be considered. Each of the qualitative characteristics may on its own not be sufficient to determine whether the [draft] ISA for LCE is appropriate or not in the circumstances, therefore the matters described in the list are intended to be considered both individually and in combination. ~~The presence of one characteristic exhibited by an entity does not necessarily exclude the use of the [draft] ISA for LCE for that entity.~~ 64. The characteristics are not intended to be absolute, i.e., if an entity does not exhibit all of these characteristics it would not necessarily exclude the use of [draft ISA for LCE] for that entity.

~~Notwithstanding that professional judgment is used in determining whether the [draft] standard is appropriate to use, if there is uncertainty about whether an audit is an audit of the financial statements of an LCE, the use of the [draft] ISA for LCE is not appropriate.~~

~~A.8. If an audit engagement is not prohibited from use of the [draft] ISA for LCE as set out in paragraph A.7., it would be inappropriate for an audit of the financial statements of the entity to be undertaken using the [draft] ISA for LCE if the entity exhibits the following:~~

- ~~• Complex matters or circumstances relating to the nature and extent of the entity's business activities, operations and related transactions and events relevant to the preparation of the financial statements.~~
- ~~• Topics, themes and matters that increase, or indicate the presence of, complexity, such as those relating to ownership, corporate governance arrangements, policies, procedures or processes established by the entity.~~

~~These are indicators of, or proxies for, matters or circumstances for which the [draft] ISA for LCE has not been designed to address.~~

~~A.9. A.3. In accordance with paragraph A.8.,~~ The [draft] ISA for LCE is ~~inappropriate~~ appropriate for the audit of the financial statements if ~~where an~~ the entity exhibits ~~one or more~~ of the following characteristics:

- The entity's business activities, business model or the industry in which the entity operates does not give rise to results in significant pervasive business risks and there are no specific laws or regulations that govern the business activities that increase the add complexity (e.g., prudential requirements) of the audit, such as when the entity operates in new or emerging markets, or entities in the development stage.
- The organizational structure is ~~not~~ relatively straightforward ~~or simple~~, with few reporting lines or levels and a small key management team (e.g., generally 5 individuals or less), such as
 - ~~• Multiple levels and reporting lines, with many individuals involved in financial reporting, to accommodate the entity's business activities; or~~
 - ~~• Including unusual entities or arrangements, such as special purpose entities, complex joint ventures, off-balance sheet financing arrangements, or other complex financing arrangements.~~
- ~~Ownership or oversight structures are complex.~~ The entity's ownership structure facilitates clear transparency of ownership and control.
- ~~• The entity's operations are subject to a higher degree of regulation or to significant regulatory oversight, such as being subject to prudential regulations.~~

- 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).
- ~~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.~~
- The entity's transactions result from few business activities or revenue streams.
- ~~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 development and IT environment maintenance skills to support the IT environment and processes.~~
- With regard to the entity's information technology:
 - The entity uses commercial software and does not have access to the source code to make any program changes (notwithstanding the ability to configure the software (e.g., the chart of accounts, reporting parameters or thresholds)).
 - Access to the software is generally one or two designated individuals with administrative access to the software to make the configurations.
 - Few formalized general IT controls are needed in the entity's circumstances.
- ~~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. 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.~~

Quantitative Thresholds³¹

[A.4. The [draft] ISA for LCE is inappropriate if the following thresholds have been exceeded by the entity in the financial year [or equivalent] subject to audit:

- (a) [Employee headcount: [designated by jurisdiction [and/or]
- (b) Revenue of [designated by jurisdiction] [and/or]
- (c) Net Assets of [designated by jurisdiction]. [and/or]
- (d) [Other³²]

Responsibilities of Legislative or Regulatory Authorities or Relevant Local Bodies

A.10: Decisions about the required or permitted use of the IAASB's International Standards rest with legislative or regulatory authorities or relevant local bodies with standard-setting authority (such as regulators or oversight bodies, national standard setters, professional accountancy organizations or others as appropriate) in individual jurisdictions. This applies to the International Standards on Auditing (ISAs) and the [draft] ISA for LCE.

³¹ For discussion – this will be updated if it is agreed that quantitative thresholds are “strongly encouraged” rather than required.

³² Other possible thresholds and related guidance will be set out in the Authority Supplemental Guide.

A.11. As part of the local adoption and implementation process, legislative or regulatory authorities or relevant local bodies with standard-setting authority: ~~may:~~

- ~~Modify, but not remove, the classes of entities in paragraph A.7.(c)(i)-(iv) by, for example, applying quantitative criteria to a class or otherwise modifying as set out in paragraph A.6.; or may add or modify the classes of entities in paragraph A.1.(c) as set out in paragraph A.2.~~*
- ~~Further limit use of the [draft] standard in paragraph A.7.(c)(v) by inclusion of an additional class(es) of entity or through setting specific size criteria (such as using revenue, assets or employee number limits). are required to [encouraged to]³³ determine the quantitative thresholds described in paragraph A.4.~~*

In doing so, the specific prohibitions and the qualitative characteristics should be considered, as well as other specific needs that may be relevant in the jurisdiction. The Authority Supplemental Guide may be helpful when determining the permitted use of the [draft] standard for a jurisdiction.

Firms and Auditors (Moved to Authority Supplemental Guide)

~~A.12. Firms are responsible for establishing policies or procedures in relation to the permitted use of the [draft] ISA for LCE by the firm's engagement teams.³⁴ In doing so, the firm takes into account the specific prohibitions for use of the [draft] standard in paragraph A.7., including any further modifications or limitations for the applicable jurisdiction, as well as the qualitative characteristics described in paragraphs A.8.–A.9. The firm may also further limit the classes of entities for which the firm's engagement teams can use the [draft] ISA for LCE.~~

~~A.13. For individual audit engagements, as part of the firm's acceptance or continuance procedures and the engagement partner's responsibilities related thereto, the engagement partner is required to determine that the audit engagement is an audit of an LCE in accordance with this Part (i.e., Part A) in order to use the [draft] ISA for LCE (see Part 4, paragraph 4.2.1.). For this purpose, the engagement partner takes into account:~~

- ~~• The list of entities for which the use of the [draft] standard is specifically prohibited as set out in the local jurisdiction.~~
- ~~• The qualitative characteristics (see paragraphs A.8.–A.9.).~~
- ~~• Firm policies or procedures.~~

~~A.14. The Supplemental Guide may also be helpful to firms in developing policies or procedures in relation to the use of the [draft] ISA for LCE. At the engagement level, the engagement partner may also find the guidance helpful in understanding when the [draft] standard would be appropriate for a particular audit engagement.~~

³³ For discussion – this will be updated if it is agreed that quantitative thresholds are “strongly encouraged” rather than required.

³⁴ International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, paragraphs 24–27 and 30