

Audits of Less Complex Entities

Update on IAASB Efforts to Address Issues and Challenges

December 2020

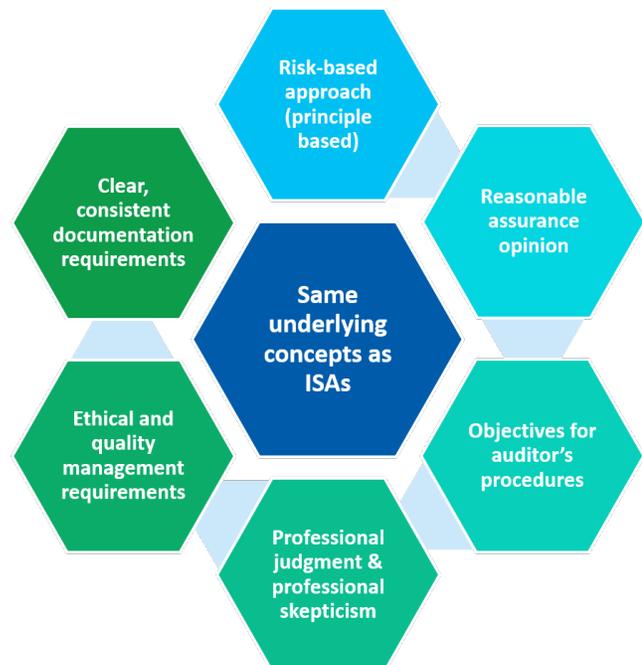
Developing a Separate Standard for an Audit of a Less Complex Entity

The IAASB is developing a draft of the separate standard for an audit of financial statements of a less complex entity (LCE), and held its first discussion at its December 2020 board meeting focused on targeted matters related to the initial working draft. The IAASB established a preliminary timeline which is set out below.

What will the separate standard look like?

The IAASB is developing the standard on the following basis:

- ❖ **Using similar concepts and principles as the International Standards on Auditing (ISAs)** – the audit approach will be risk-based, to obtain sufficient appropriate audit evidence to result in a reasonable assurance opinion.
- ❖ **Containing all requirements relevant to an audit of an LCE within a ‘standalone’ standard.** These requirements are based on ‘core’ requirements from the ISAs, i.e., those requirements that the IAASB considers core to an audit that would be applicable in the circumstances of an audit of an LCE.



- ❖ Divided into “Parts” following the flow of an audit and setting out the relevant requirements for the various components within an audit



The IAASB is discussing how it will provide application material for the effective implementation of the separate standard, including what is encompassed within the separate standard itself.

Who will be able to use the separate standard?

An introductory section will explain the applicability of the standard (i.e., the types of audits for which it will be suitable) – this is still under discussion by the IAASB and so may change as the separate standard is further developed. The applicability section will set out any restrictions on use of the standard, as well as the characteristics of an audit for which the separate standard is appropriate.

At its December meeting, the IAASB reaffirmed its position that this standard will not be appropriate for use for audits of listed entities (i.e., it will contain no requirements that are unique to listed entities, the IAASB believes only the ISAs would meet the public interest in this case). At future meetings, the IAASB will consider further limitations. Additionally, the IAASB recognizes that each jurisdiction will need to decide whether the separate standard for audits of LCEs is appropriate for use within their local environment, and appropriate authorities may also further restrict use of the separate standard.

What is the targeted timeline for the development of the Separate Standard



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