

Audits of Less Complex Entities

Update on IAASB Efforts to Address Issues and Challenges

November 2020

Addressing Complexity, Understandability, Scalability and Proportionality

In the current environment, a drive toward increasingly complex structures and transactions has influenced the development and revision of the International Standards on Auditing (ISAs). These evolving influences could potentially lead to a reduction in high-quality audits as more complexity in the standards may affect how the auditor applies the standards. In particular, this inherent complexity in the ISAs poses challenges for less complex entities.

Responding to stakeholder feedback, the IAASB began exploring what could be done to address, complexity and scalability in the ISAs.

Following publication of the IAASB's Discussion Paper, [Audits of Less Complex Entities: Exploring Options to Address the Challenges in Applying the ISAs](#) and other input from outreach, in December 2019, the IAASB published a [Feedback Statement](#) on what it heard. Based on this feedback and to move forward on this critical topic, the IAASB agreed:

- That there is the need for a **global solution** – jurisdictional developments and fragmentation are not in the public interest.
- There is a need to **keep the standards fit-for-purpose** for use by auditors of entities of all sizes and complexities.
- There is an **urgent need for action**.

IAASB's Next Steps

The input to the Discussion Paper and other outreach highlighted that although there is the need to address challenges and issues relating to less complex entities, many of the challenges and issues were also applicable to all audits. In balancing the needs of all its stakeholders, as well as the time needed to develop changes to address the issues and challenges within the broader suite of ISAs, the IAASB agreed to **two workstreams**: one to develop a separate standard focused on audits of financial statements of Less Complex Entities (LCEs), and the other to address issues related to complexity, understandability, scalability and proportionality in the ISAs more broadly.

What is being addressed within each of the workstreams?

Developing a Separate Standard for Audits of Less Complex Entities	Addressing Complexity, Understandability, Scalability and Proportionality
<p>The objective of this workstream is to address issues and challenges specific to audits of LCEs, including issues related to complexity, understandability, scalability and proportionality.</p> <p>The development of the separate standard for audits of LCE's will be:</p> <ul style="list-style-type: none"> • Based on the same underlying concepts as the ISAs (where the requirements are relevant to an audit of an LCE) i.e., the standard would not address complex circumstances or matters • On the basis of the flow of an audit, rather than grouped topically • Designed to achieve reasonable assurance 	<p>The objective of this workstream is to focus on complexity, understandability, scalability and proportionality across the suite of ISAs through:</p> <ul style="list-style-type: none"> • The development of prescribed drafting principles and guidelines (based on existing conventions with enhancements as needed): <ul style="list-style-type: none"> • To enable a more consistent and effective use of the ISAs through a focus on how the ISAs are written and presented • To encourage, among other principles, the use of clear, plain language, avoiding duplication, repetition of requirements and cross-referencing where unnecessary • A focus on the documentation requirements in the ISAs, and determining what more can be done to assist with effective implementation of these requirements

What is the timing of each of the workstreams?

Developing a Separate Standard for Audits of Less Complex Entities	Addressing Complexity, Understandability, Scalability and Proportionality
<ul style="list-style-type: none"> • First draft of separate standard to be discussed with IAASB in December 2020 • Discussions with the IAASB in March and June 2021 to progress draft • An Exposure Draft is targeted for public consultation early July 2021 	<ul style="list-style-type: none"> • Targeted consultation on drafting principles and guidelines in quarter 4 of 2021 • Drafting principles and guidelines to be finalized before finalization of the separate standard • IAASB to decide how the drafting principles and guidelines will be applied in open and future projects

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