Audits of Less Complex Entities: ISA for LCE

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IAASB Meeting
March 23, 2023
Agenda Item 6
Task Force & Staff Activities

- Release of Exposure Draft (Proposed Part 10)
- Task Force Meetings
- LCE Reference Group
- CAG Meeting
- IFAC SMPAG
Overarching Principles to Proposed Revisions

- Targeted areas identified by respondents:
  - Relevance
  - Proportionate
  - Outcome
  - Essential Explanatory Material (EEM)
Feedback: Documentation of an audit performed under ED would not be proportionate to an audit of an LCE

Proposed revisions

- Revisions of requirements throughout proposed standard for proportionality and granularity
- Additional EEM to address application of general documentation principles
- Revisions to specific documentation requirements for duplication, location and relevance
1. The Board is asked for their views on
   (a) The Task Forces proposed approach to addressing respondents’ comments relating to documentation
   (b) The proposed changes to Part 2 and specific documentation requirements in other parts, as presented in Agenda Item 6-B
Feedback: Requirements could be more proportional for audits of LCEs, including engagements carried out by only one person

Proposed revisions
- Structure: separate requirements when there is more than one member of engagement team
- Deletion of repetitive requirements and EEM
- Other revisions and simplification of structure
2. The Board is asked for their views on proposed revisions to Part 3 as presented in Agenda Item 6-B.
Part 4, Client Acceptance/Continuance, Initial Audit Engagements

Feedback: General support with requests for more EEM and comments on the content of engagement letter or other written agreement

Proposed revisions
• Removal of requirement for the engagement letter or written agreement to specify that audit is being undertaken using the ISA for LCE
• Additional EEM, including for initial audit engagements
3. The Board is asked for their views on the changes made to Part 4 as presented in Agenda Item 6-B
Part 5, Planning

Feedback: General support with requests for more EEM and suggestions for relocation of some requirements

Proposed revisions

• Additional EEM, including for using the work of management’s expert and materiality
• Documentation requirement for calculation of value under which misstatements would be clearly trivial
• Going concern requirements relocated to Part 6
Part 5

4. The Board is asked for their views on the changes made to Part 5 as presented in Agenda Item 6-B
Part 6 – *Risk Identification & Assessment*

Consideration of Board comments received during December 2022 meeting

Proposed revisions
- Presumption of fraud risk relating to revenue recognition
- Work effort in 6.3.12A – “evaluate”
  - Clarified requirement for understanding entity’s process to prepare financial statements (6.3.9)
- Clarified requirements for understanding of services provided by a service organization
- Combined determining RAs and SCOTABDs into 6.4.1
5. The Board is asked for their views on the changes made to Part 6 as presented in Agenda Item 6-B
Accounting Estimates: Previous Discussions

Feedback (Authority): Allow the use of the ISA for LCE when entity has small number of “more complex” accounting estimates

September Discussion
• Revision of qualitative characteristic in Authority
• Further guidance in Supplemental Guide
• Action to review requirements given changes to Authority
Accounting Estimates: Proposed Revisions to Content

Feedback: Reduce the complexity of the requirements (based on Authority per ED). Other suggested revisions to specific requirements/EEM.

Proposed revisions

- Reviewed ISA 540 (Revised) to identify areas where further requirements and EEM are needed given changes to Authority
- Aligned structure with ISA 540 to be clearer on testing approaches
- Requirement for disclosures relating to an accounting estimate
- Enhanced EEM to support requirements
6. The Board is asked for their views on proposed revisions to Part 7 relating to accounting estimates as presented in Agenda Item 6-B
Feedback: Support for inclusion of the ISA 800-series’ requirements. Mixed views on timing and suggestions for further outreach to determines the use of ISA 800 series by LCEs

Task Force recommendation
- Further outreach after approval of ISA for LCE to determine use of ISA 800-Series by LCEs particularly given revision to Authority after ED
- Do not develop separate part for ISA 800-series at this time
- Address how ISA for LCE and ISA-800 series may interact
6. The Board is asked if they agree with the Task Force’s recommendations on the way forward with respect to the ISA 800-series, including not to develop a part containing requirements for the ISA 800-series at this time.
Way Forward

Exposure Period for Group Audits Ends
May 2023

June and September 2023
Further Discussions with Board

Expected Approval of Standard
December 2023
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