Audits of Less Complex Entities: ISA for LCE

Kai Morten Hagen, Task Force Chair
IAASB CAG September 2023 Meeting
Agenda Item C.1
The ISA for LCE Journey

- **Project Proposal**
  - Approved December 2020
- **Initiation of Information Gathering**
  - March 2017
- **Exposure Draft – ISA for LCE**
  - Published June 2021
  - Closed January 2022
- **Exposure Draft – Part 10, Group Audits**
  - Published December 2022
  - Closed April 2023
- **Approval of Final Standard**
  - Expected September 2023
What Have We Done Since We Last Met?

March – August 2023

Task Force discussed
- Revisions to the proposed ISA for LCE based on comments from the IAASB, IAASB CAG, Outreach and responses to the Exposure Drafts
- Effective date, maintenance of the standard and adoption and implementation

June 2023 IAASB Meeting

IAASB discussion on
- Preface and Authority
- Revisions to Parts 1 to 9

July 2023 IAASB Meeting

IAASB discussion on Part 10, *Audits of Group Financial Statements*
- Discussed comments received on exposure and updated drafting
Comment period closed April 2023

60 Comment Letters

Task Force analyzed comments

- Prohibition relating to Component Auditors
- Group-specific Qualitative Characteristics
- Content of Part 10 and Conforming Amendments
<table>
<thead>
<tr>
<th>Stakeholder Type</th>
<th>No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulators and Audit Oversight Authorities</td>
<td>5</td>
</tr>
<tr>
<td>National Auditing Standard Setters</td>
<td>11</td>
</tr>
<tr>
<td>Accounting Firms</td>
<td>13</td>
</tr>
<tr>
<td>Public Sector Organizations</td>
<td>2</td>
</tr>
<tr>
<td>Member Bodies and Other Professional Organizations</td>
<td>28</td>
</tr>
<tr>
<td>Individuals and Others</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60</strong></td>
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</table>
Proportionate Revisions to Standard

Approach to Final Revisions

• Targeted revisions to ensure consistency throughout the standard
• Evaluation if requirements are relevant and proportional to a typical LCE
• Additional EEM where appropriate
Preface and Authority: Changes Since March 2023 CAG Meeting

Proposed revisions to the Preface

ISA 800 Series

ISAs as source of guidance

Proposed revisions to the Authority

• Alignment with IESBA Code
• Reports on Service Organization controls
• Matters related to Audits of Group Financial Statements
  o Qualitative characteristics
  o Prohibition use component auditors
Prohibition related to the use of component auditors

Mixed views received from comments letters to the ED-Part 10

<table>
<thead>
<tr>
<th>Supporting the proposed prohibition</th>
<th>Disagree with the proposed prohibition</th>
<th>Requests for Clarifications or Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>As described in the ED</td>
<td>Not a proxy for complexity</td>
<td>Define component auditors</td>
</tr>
<tr>
<td>Expand exemption</td>
<td>Not focused on complexity of the entity</td>
<td>Examples or guidance on what situations</td>
</tr>
<tr>
<td>Narrow exemption</td>
<td>Limit adoption</td>
<td></td>
</tr>
<tr>
<td>• Agreed that generally not typical for LCE - exemption is appropriate</td>
<td>• Exemption may be used too widely</td>
<td></td>
</tr>
<tr>
<td>• Provided other examples where component auditors are used in LCEs</td>
<td>• Not a proxy for complexity</td>
<td></td>
</tr>
<tr>
<td>• Exemption may be used too widely</td>
<td>• Not focused on complexity of the entity</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Limit adoption</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Adds complexity to decision-making</td>
<td></td>
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</tbody>
</table>

Proposed way forward: Not to change the prohibition and provide additional guidance in the proposed standard and supplemental guidance
Matters for IAASB CAG Consideration

Preface and Authority

1a) The Representatives are asked for their views on the proposed revisions to the Preface and Authority
## Parts 1-6: Changes Since March 2023 CAG Meeting

<table>
<thead>
<tr>
<th>Throughout the standard</th>
<th>• Enhanced scalability by having separate procedures when there is more than one person on the engagement team</th>
</tr>
</thead>
</table>
| Part 1, *Fundamental Concepts, General Principles and Overarching Requirements* | • Clarification relating to Firm Level Quality Management  
• Communication requirement and EEM on relevant ethical requirements |
| Part 2, *Audit Evidence and Documentation* | • Additional EEM to help apply general documentation requirements |
| Part 3, *Engagement Quality Management* | • Revisions to clarify engagement partner’s responsibilities  
• Added requirement for the engagement partner to have an understanding of relevant ethical requirements |
### Parts 1-6: Changes Since March 2023 CAG Meeting

| Part 4, Acceptance and Continuance and Initial Audit Engagements | • Reversed previously proposed change to engagement letter: use of ISA for LCE should be included |
| Part 5, Planning | • Enhanced EEM for materiality |
| | • Enhanced specific documentation requirements |
| Part 6, Risk Identification and Assessment | • Requirements and additional EEM related to  
  o The process to prepare financial statements  
  o Understanding the services provided by a service organization |
1b) The Representatives are asked for their views on the proposed revisions to Parts 1–6
### Parts 7-10: Changes Since March 2023 CAG Meeting

| Part 7, Responding to Assessed Risks of Material Misstatement | • Added requirements and EEM for the standard to be able to be applied as a standalone standard.  
  o Audit sampling (designing a sample, determining sample sizes, selecting items for testing and evaluating the results)  
• Re-ordered some requirements and EEM to enhance flow and better align with the ISAs |
| Part 8, Concluding | • Added requirements related to subsequent events  
• Enhanced requirements related to written representations |
| Part 9, Forming an Opinion and Reporting | • Clarifications for specified format and content of Auditor’s Report  
• Added requirements on modifications to auditor’s opinion and to address proposed revisions to other parts |
| Part 10, Audits of Group Financial Statements | • Revisions for stronger alignment with other Parts of the ISA for LCE |
1c) The Representatives are asked for their views on the proposed revisions to Parts 7–10
Other Matters

- Appendices
- Conforming Amendments
- Effective Date
- Maintenance
## Adoption and Implementation

### Adoption
- Adoption plan
- Actions
  - Outreach
  - Liaison with IFAC, NSSs and PAOs
  - Develop materials

### Implementation
- Fact sheet
- First time implementation guide
- Supplemental Guide on Authority and Reporting
- Webinars
2. The Representatives are asked for their views on
   a) The effective date of the ISA for LCE
   b) The maintenance of the ISA for LCE
   c) The IAASB’s plan on adoption and implementation
3. The Representatives are asked whether there are any other matters that the LCE Task Force should consider as it finalizes proposed ISA for LCE
Way Forward

Adoption and Implementation

Expected approval of the standard
September 2023

Proposed effective date
December, 15 2025

December 2023

Expected publication of the standard
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