Audits of Less Complex Entities: Separate Standard

Presented by:
Kai Morten Hagen, Task Force Chair

IAASB Board Meeting
June 14-23, 2021
Where Are We?

What We Discussed in May:
• Authority of the Standard
• Explanatory Memorandum: Groups

What We Will Focus On At this Meeting
• Revised [draft] Standard
• Supplement for Authority for the Standard
• Conforming Amendments to the IAASB Standards Preface
• Topics for Explanatory Memorandum
• Outreach plan
Outreach Performed

- National Standard Setters (NSS)
- IFAC SMP Advisory Group
- LCE Reference Group
- PIOB
  - Public interest issues
- Letters
  - IFAC
  - ICAEW
Project Proposal

Develop a risk-based, standalone standard that will provide reasonable assurance

Requirements—based on the concepts in the ISAs, principles based and focused on outputs

Incorporates core requirements from the ISAs, adapted as appropriate for an audit of an LCE
Proportionality and Drafting of the Standard

• ISA Requirements:
  • Core ISA requirements included
    • In Full; or
    • Modified for the nature of the ISA for LCE but outcome expected to be the same
  • Excluded
    • Where specifically restricted (e.g., listed entities, groups)
    • Where address complex matters or circumstances
    • Other – e.g., rare or exceptional circumstances

• In line with Project Proposal
• CUSP Drafting Principles applied where applicable
Transitioning to ISAs

• To be addressed in Explanatory Memorandum

• Non-Authoritative guidance:
  • Terms of engagement
  • Adjustments required to planning activities (acceptance & continuance, communications)
  • Reconsider risk assessment
  • Involvement of others in the audit beyond those contemplated in the LCE standard (experts, service organizations, internal audit)
  • Complexity in auditing estimates or other complex matters
  • Reporting considerations, including comparatives / corresponding figures

• Included as topic and questions regarding transition in EM
Title of the Standard

• Aims:
  • To appropriately distinguish
  • To not confuse users
• Specific question to be added in EM
Board Members are asked for:

- General / Opening Comments
Preface

- Definitions
- Symbols removed
- Maintenance of the standard
- Table of Contents
Board Members are asked for views on:

- The Preface
  (Agenda Item 2-A)
Authority: Limitations for Use

Specific Restrictions
(Para A.7(a)-(d))
- Prohibited by Law or Regulation
- Audits of Listed Entities
- Entities with Public Interest Characteristics
- Audits of Group Financial Statements

Qualitative Characteristics
(Para’s A.9-10)
- Business activities, model & industry
- Organizational Structure
- Ownership & Oversight Structures
- Regulation & Regulatory Oversight
- Transactions & Processes
- IT Environment & Systems
- Accounting Estimates

Basis for Limitations (i.e., overarching considerations) (Para A.5)
## Entities with Public Interest Characteristics

<table>
<thead>
<tr>
<th>Similarities to IESBA’s PIE Project</th>
<th>Differences to IESBA’s PIE Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>ISA for LCE restricts use of the standard to entities in 4 categories also included within the recent IESBA ED</td>
<td>Overall objective is different:</td>
</tr>
<tr>
<td>Similar categories – entities deemed to exhibit complexity</td>
<td>• PIE: overarching objective for additional independence requirements for entities that are categorized as PIEs.</td>
</tr>
<tr>
<td></td>
<td>• ISA for LCE: Objective to restrict the use of the standard to those categories that exhibit complexity</td>
</tr>
<tr>
<td></td>
<td>• Supplemental guidance to explain modifications to categories</td>
</tr>
</tbody>
</table>
Board Members are asked for views on:

- The Authority of the Standard (Part A)  
  (Agenda Item 2-A)
- Supplementary Guidance on the Authority of the Standard  
  (Agenda Item 2-C)
Restructuring Parts 1, 2, 3

FLOW OF AUDIT

Part 1: Fundamental Concepts and General Principles

Part 2: Audit Evidence and Documentation

Part 3: Engagement Quality Management

Part 4: Acceptance or Continuance of an Audit Engagement and Initial Audit Engagements

Part 5: Planning

Part 6: Risk Identification and Assessment

Part 7: Responding to Assessed Risks of Material Misstatement

Part 8: Concluding

Part 9: Forming an Opinion and Reporting
Board Members are asked for views on:

- Part 1

(Agenda Item 2-A)
Other Key Changes in Part 2 since March

• This Part now focuses on Audit Evidence and Documentation
IAASB Input

Board Members are asked for views on:

✓ Part 2

(Agenda Item 2-A)
Board Members are asked for views on:

- Part 3

(Agenda Item 2-A)
Board Members are asked for views on:

- Part 4

(Agenda Item 2-A)
Board Members are asked for views on:

- Part 5
  (Agenda Item 2-A)
Board Members are asked for views on:

- Part 6

(Agenda Item 2-A)
Board Members are asked for views on:

- Part 7

(Agenda Item 2-A)
Board Members are asked for views on:

- **Part 8**
  
  (Agenda Item 2-A)
Board Members are asked for views on:

- Part 9  
  (Agenda Item 2-A)
Tuesday June 15th, 2021
IAASB Input

Board Members are asked for views on:

❖ Appendices

(Agenda Item 2-A)
IAASB Input

Board Members are asked for any additional views on:

- **Mapping Documents**
  (Agenda Items 2-B (1) & 2-B (2))
ISA 800 Series

• Questions have arisen how the 800-series will be addressed
IAASB Standards Preface

• Conforming amendments to Preface – to be approved next week
Where Next?

- Friday 18th June: Updated Standard Posted
- Sunday 20th June: Consultations (as needed)
- Tuesday 22nd June: Post Final Standard - morning
- Wednesday 23rd June: Vote for approval of ED
- Tuesday 6th July: Draft EM Provided for Fatal Flaw Review
- By Friday 23rd July: EM and ED published
Other Matters

• Outreach
• Auditor reporting supplement
• Consultation period
Authority
Topics for Explanatory Memorandum

- Background to the Project & Public Interest Issues
- Approach to, & principles used during, development
- Questions:
  - Input on if the standard can and will be used
  - Development Principles, Content, Structure & Flow, Approach to EEM, Title
  - View on Reasonable Assurance
  - Authority
  - Groups
  - Proposed Maintenance Period
  - Implementation and Transition Guidance, Challenges
  - Other Items inc. Reporting, Supplements, Confirming Amendments
Outreach

• Translation of ED and EM
• Outreach to encourage responses from different stakeholders:
  • Regional Events
  • Social Media, Videos
  • Press Releases, Articles and Communiques
  • Webinars
  • Surveys
• Objective to reach wide range of stakeholders
Board Members are asked for initial views on:

- Topics for Explanatory Memorandum
- Outreach
## Where Next?

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Friday June 18</td>
<td>Revised Draft Standard; Conforming Amendments to Preface; Definitions → Final comments back to TF Chair &amp; Staff by 4pm Sunday</td>
</tr>
<tr>
<td>Sat June 19 – Sun June 20</td>
<td>Supplements (Authority &amp; Reporting) → not voted on but any comments to TF Chair &amp; Staff by Tuesday 6 July</td>
</tr>
<tr>
<td>Sunday June 20</td>
<td>Consultations; all final comments submitted by 4pm</td>
</tr>
<tr>
<td>Tuesday June 22</td>
<td>Final Standard &amp; Conforming Amendments to Preface (for voting)</td>
</tr>
</tbody>
</table>
| Wednesday June 23  | Vote to approve Exposure Draft  
Provide any additional topics for inclusion on EM                                                                                   |
| Tuesday July 6     | Receive Draft EM                                                                                                                                 |
| Wednesday July 14  | Deadline for comments on EM                                                                                                                       |