Audits of Less Complex Entities

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IAASB Meeting
December 5, 2022
Agenda Item 3
Task Force & Staff Activities

- Task Force Meetings
- LCE Reference Group
- Small and Medium Practices Advisory Group
- Liaison with other project teams
Objective of This Week’s Session

• Approve the Exposure Draft of Part 10, *Audits of Group Financial Statements*, and related conforming amendments for public consultation

• Obtain the Board’s input on
  o Part 6, Risk Identification and Assessment
  o Quantitative threshold section in the Authority
  o Views and recommendations on the way forward in relation to selected other topics
Part 10, Audits of Group Financial Statements

What Has Changed Since September Board Meeting?

Authority
- New prohibition when involving component auditors
- Changes made to the qualitative characteristics

Requirements
- Removed all requirements related to component auditors
- Reflected suggestions from the Board in September 2022

Included Essential Explanatory Material (EEM)

Conforming Amendments to Other Parts Due to Part 10
1. The Board is asked for their views on the changes made to the Authority related to group audits as set out in paragraph 14 of Agenda Item 3.
2. The Board is asked for their views on the changes made to the requirements and EEM in Part 10 as set out in Agenda Item 3-B. The Board will be asked to provide feedback in the following order:

(a) Content of this Part, Sections 10.1–10.4
(b) Sections 10.5–10.8
3. The Board is asked for their views on the proposed changes to Parts 1–9 in Agenda Item 3-D, including if there is anything else to add.
4. The Board is asked if they have any comments regarding the proposed exposure period, effective date and content of the explanatory memorandum, or further comments regarding Part 10 and related conforming amendments.
Key Changes

• Approach to understanding entity’s system of internal control
• Combined identification and assessment of RoMMs
• Requirement to consider effect of inherent risk factors
• Presumption of revenue recognition risk now an active determination of any fraud risks in revenue recognition
• Other revisions, including new EEM, to address concerns about proportionality and clarity
## Component Of Entity’s System of Internal Control per ED

<table>
<thead>
<tr>
<th>Component Of Entity’s System of Internal Control per ED</th>
<th>Approach in Revised Part 6</th>
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| Entity’s Control Environment                           | • Requirement to understand control environment  
                                               | • Evaluation of appropriateness               |
| Entity’s Risk Assessment Process                       | • Inquiries (direct i.e., more proportionate to LCE) |
| Entity’s Process for Monitoring Controls               | • Inquiries (direct i.e., more proportionate to LCE) |
| Entity’s Information System                            | • Requirement to understand process to prepare financial statements  
                                               | • Consideration of appropriateness            |
| Entity’s Control Activities                            | • Approach as per exposure draft               |
The Board is asked for their views on proposed Part 6 as presented in Agenda item 3-E.

## Part 6 (1 of 2)

### Sections

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Introductory Box</td>
<td>6.1.1–6.2.6</td>
<td></td>
<td></td>
<td>6.3.A–6.3.5</td>
</tr>
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</tbody>
</table>

#### Inquiries of Management and Others within the Entity
- Understanding the Entity and Its Environment
- Understanding the Applicable Financial Reporting Framework

#### Understanding the Entity’s System of Internal Control
- Deficiencies in the Entity’s System of Internal Control
6. The Board is asked for their views on proposed Part 6 as presented in Agenda item 3-E.

<table>
<thead>
<tr>
<th>Sections</th>
<th>Paragraphs</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.4. Identifying and Assessing Risks of Material Misstatement</td>
<td>6.4.1–6.4.3G</td>
</tr>
<tr>
<td>Significant Risks</td>
<td></td>
</tr>
<tr>
<td>Assessing Control Risk</td>
<td></td>
</tr>
<tr>
<td>Evaluation of the Procedures to Identify and Assess Risks of Material Misstatement and Revision of Risk Assessment</td>
<td></td>
</tr>
<tr>
<td>6.5. Evaluation of the Appropriateness of Using the ISA for LCE</td>
<td>6.5.A–6.7.1</td>
</tr>
<tr>
<td>6.7. Specific Communication Requirements</td>
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Quantitative Thresholds

Expectation for jurisdictions to determine

Guidance to assist in determination (inc., reference to the European Commission’s definition of a “small enterprise”)
7. The Board is asked for its views on the proposed revisions to the Authority relating to quantitative thresholds.
Question 7(b): Approach to objectives
Response: Support the approach
Way Forward: Keep the approach

Question 7(d): Approach to EEM
Response: Support content and presentation
Mixed views on sufficiency
Way Forward: Keep overall approach but review individual parts for revisions or additions
Matters for IAASB Consideration

Objectives and EEM

8. The Board is asked for its views on the proposed way forward by the Task Force as set out in paragraph 66–68 in Agenda Item 3.
ISA for LCE: Way Forward

✓ Publish Exposure Draft of Part 10 in January 2023

✓ Continue drafting in remaining areas for discussion in March and June 2023

✓ Continue to analyze responses to exposure draft for presentation to Board
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