Task Force & Staff Activities

- Task Force Meetings
- LCE Reference Group
- Consultative Advisory Group (CAG)
- Liaison with other project teams
Objective of Todays Session

Obtain clear direction on
- Drafting of Authority (Scope)
- Approach to Accounting Estimates
- Drafting of Requirements for Group Audits
- Approach to Proportionate Requirements
The Perceived Scope of ED-ISA for LCE

Least Complex Entity

Potential Scope of ED-ISA for LCE
(as perceived by some respondents to the ED consultation)

Intended Scope of ISA for LCE

Most Complex Entity

Listed Entities/Entities with Public Interest Characteristics
## Proposed Changes to Authority

### Prohibitions
- Limitation for group audits

### Qualitative Characteristics
- Illustrative numerical indicators
- Changed individual characteristics

### Quantitative Thresholds
- EEM for jurisdictions to determine thresholds
- Additional Supplemental Guidance

### EEM
- Movement of content to EEM
- Clarified topics not included (e.g., use of internal audit)
1. The Board is asked whether they agree with the proposed changes to the Authority in Agenda Item 5-A and described in Agenda Item 5-B (excluding changes for group audits), including:
   a) The update to the entities listed in paragraph A.1.
   b) The content and presentation of qualitative characteristics (paragraph A.3.)
   c) Updates to the introductory box and Essential Explanatory Material throughout
Matters for IAASB Consideration

2. The Board is asked for their views on the development of supplemental guidance to assist in the setting of quantitative thresholds, including
   a) The matters proposed for inclusion in paragraph 19
   b) The Task Forces recommendation to not include one illustrative range or ceiling that would apply to all jurisdictions (i.e., to provide illustrative examples that may include indicative ranges instead)
   c) Any other matters that should be included in the guidance
Accounting Estimates: Key Considerations

Feedback from ED-ISA for LCE

• Most common area of concern
• Difficult to evaluate complexity of accounting estimates
• Presence of isolated estimates not pervasive to complexity more broadly
• Burdensome to transition if new facts or circumstances discovered

Task Force Views

• Complexity driven by individual facts and circumstances not type
• Generally, a typical LCE would not have complex accounting estimates
• Evaluation of complexity should be easy to understand and implement
Accounting Estimates: Proposed Solution

Prohibitions & Limitations

Qualitative Characteristics

Estimate-Specific Characteristic

Stand-Back

“The entity’s financial statements typically do not include accounting estimates that involve the use of complex methods or models, assumptions or data.”

Stand-back requirement – is it still an LCE?

Inclusion of sufficient procedures to address any “remaining” accounting estimates
3. The Board is asked for their views on the Task Force’s proposals about how to reflect accounting estimates in the Authority.

4. The Board is asked for their views on the Task Force’s proposals about the way forward on which requirements for accounting estimates should be included in the proposed ISA for LCE.
Group Audits: Approach to Authority

Group Specific Characteristics* 

Prohibitions & Qualitative Characteristics of an LCE

*Considered in addition to the Prohibitions and Qualitative Characteristics of an LCE
Advantages to Excluding the Use of Component Auditors

- Typical less complex group would not use component auditors
- Clear-cut off for use (easier to understand and apply)
- Standard more concise
- Use of component auditors increases complexity of audit

Advantages to Including the Use of Component Auditors

- Not always an indicator of complexity
- Not consistent with overall approach to Authority
- May limit use of standard
- May drive inappropriate behavior
5. The Board is asked if they agree with the proposed changes to the Authority to incorporate considerations relating to group audits (presented in Agenda Item 5-A) and if further changes are required, including for any additional qualitative characteristics.

6. The Board is asked if requirements for the use of component auditors should be excluded from the scope of the proposed standard, and thus a specific limitation incorporated into the Authority of the standard.
Part 10, **Audits of Group Financial Statements**

**ISA 600 (Revised)**

- Requirements relevant to LCE
- Requirements NOT relevant to typical LCE

**Part 10, Audits of Group Financial Statements**

- Addressed in other parts of ISA for LCE
7. The Board is asked for views on the drafting of Part 10 as set out in *Agenda Item 5-D*, including key areas where EEM would be appropriate
Drafting Proportionate Requirements

- Targeted areas only
- Not a ‘one-size fits all’ approach
- Key considerations
  - Are all matters relevant and proportionate to a typical LCE?
  - Is the level of granularity required to achieve the outcome?
  - Are there matters that could be considered rather than a required?
Illustrative Drafting: Proportionate Requirements

Illustrative Drafting: *Understanding Relevant Aspects of the Entity (Part 6)*

Goal of Illustrative Drafting: demonstrate general proposed approach and describe considerations by Task Force
8. The Board is asked for their views on the Task Force’s proposed approach to potential revisions in targeted areas identified by respondents to ED-ISA for LCE.
The Way Forward

- Continue to analyze responses to exposure draft
- Commence drafting in priority areas
- Public exposure - Part 10, *Audits of Group Financial Statements*