



# Audits of Less Complex Entities

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IAASB CAG Meeting, New York

Agenda Item N

March 11, 2020



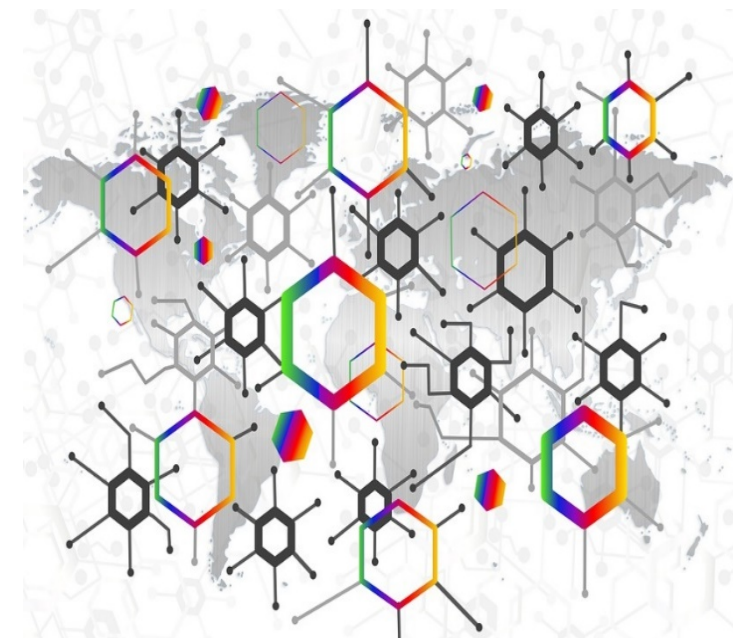
**International Auditing  
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# Introduction

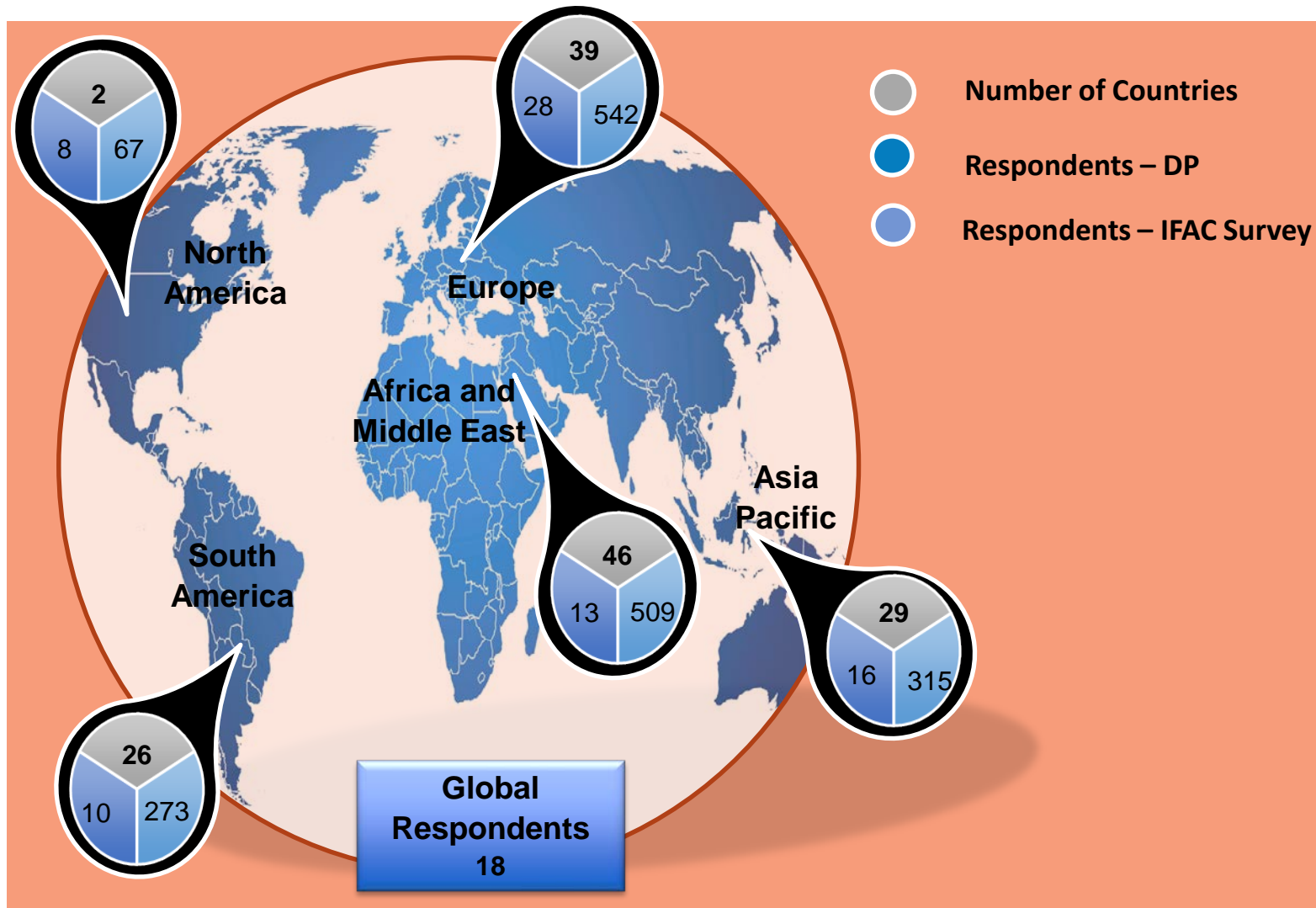
- Provide an overview of feedback received to date related to Audits of LCE's:
  - Discussion Paper (DP)
  - IFAC LCE Survey
  - Paris LCE Conference
- Discuss the work undertaken by the LCE Working Group, including discussion about the way forward

## Growing Regional and Jurisdictional Initiatives Targeted at LCEs

- “*Smaller entities make a critical contribution to the world economy, and quantitatively the majority of audits globally are audits of smaller entities.*”
- Jurisdictions who have developed (or explored) or are in a process of developing LCE / SME requirements:
  - Nordic Federation
  - Sri Lanka
  - France
  - Belgium
  - Morocco
  - India
  - Germany



## Broad Range of Responses

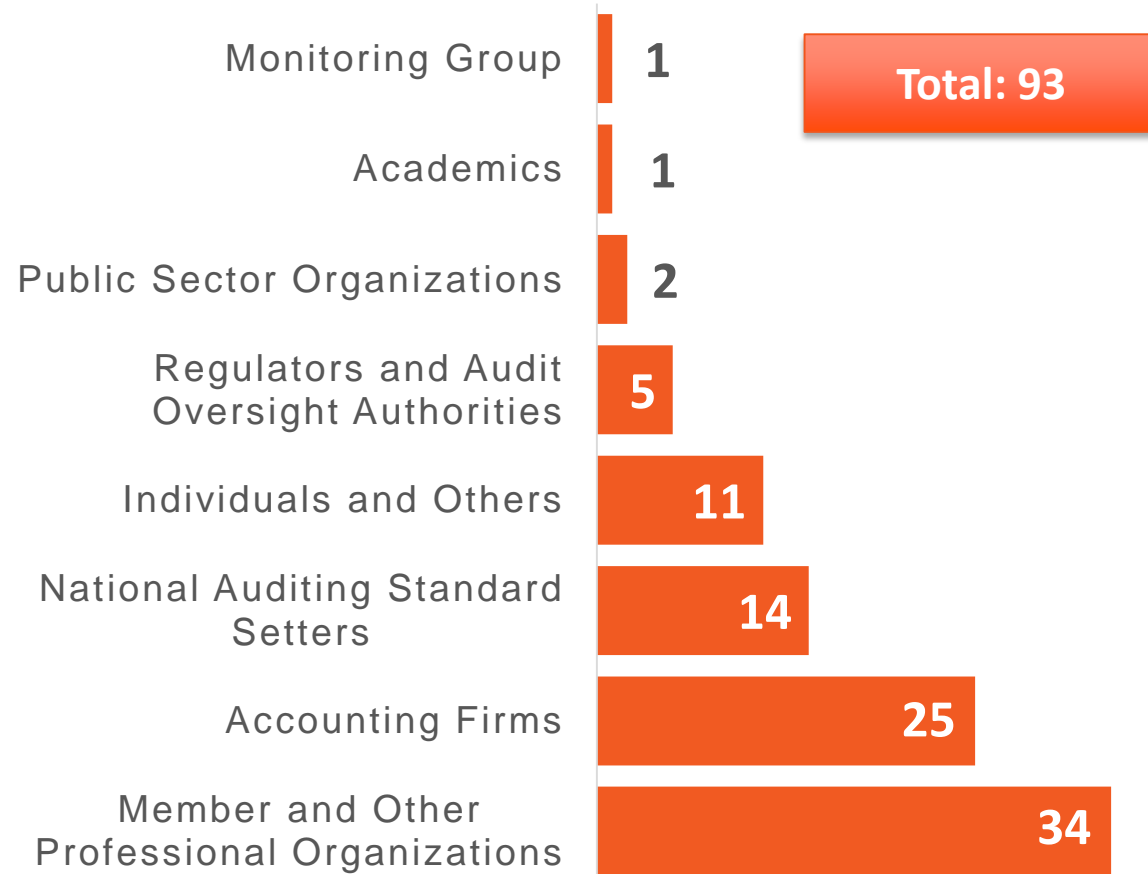


We heard from a broad range of stakeholders, regions, and gathered feedback from variety of sources:

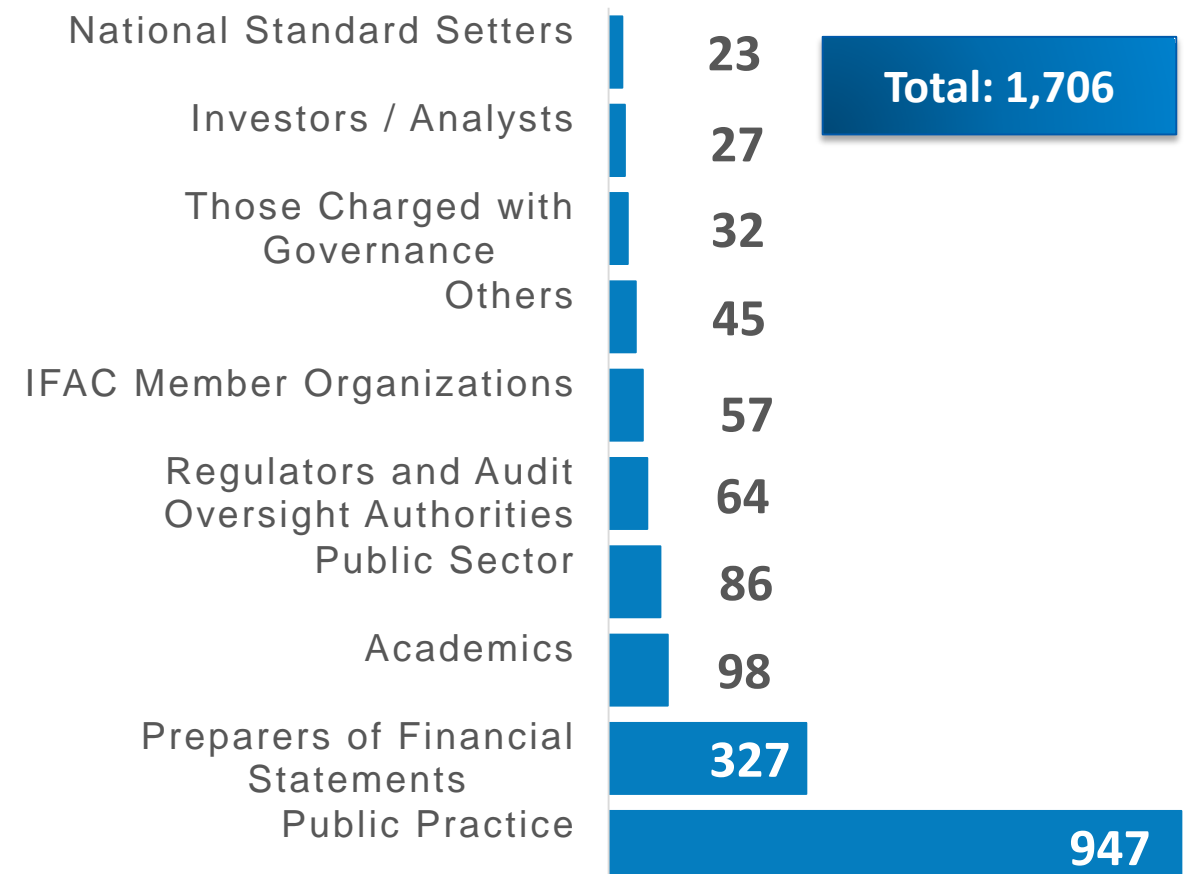
- Public Consultation
- Surveys
- Outreach

# Stakeholder Constituencies

## Discussion Paper



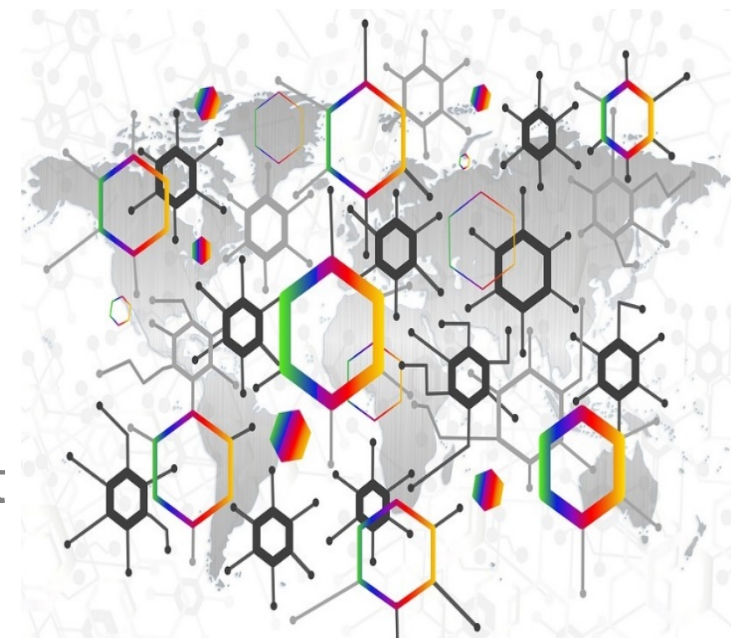
## IFAC Survey





## Feedback—Key Messages

- **Strong support** for the IAASB's work in this area
- Need for a **timely solution** (urgency)
- Need for a solution that is **global**
- **Concerns that regional and jurisdictional initiatives** primarily related to a separate standard, are working against global solution
- Solution is **not limited to one action**, encouragement that the IAASB consider all of the possible three actions (i.e. Revising the ISAs, Separate Standard and Guidance)
- Standards need to become more **accessible and searchable** (electronic format)



## Feedback—Overarching Themes

### Description of “Less Complex Entity”

- » Support for a principle-based approach using **qualitative characteristics**
- » Further consideration needed regarding qualitative characteristics, including other **risk-based factors**
- » A number of views were expressed for explicitly **excluding ‘listed’ or ‘public interest entities’**
- » **Description needs to be relevant**

### “Root Causes” of the Challenges Related to Applying the ISAs

- » Overall **length and volume** of the standards
- » **Complexity** is an issue, as well as increasing level of prescriptiveness
- » Some prescribed procedures in some cases **do not have a benefit or add little value**
- » **Lack of support tools and guidance**
- » **Specific ISAs** highlighted include ISA 230 (documentation), ISA 240 (fraud), ISA 315 (Revised) (identifying and assessing risks) and ISA 540 (Revised) (auditing accounting estimates)

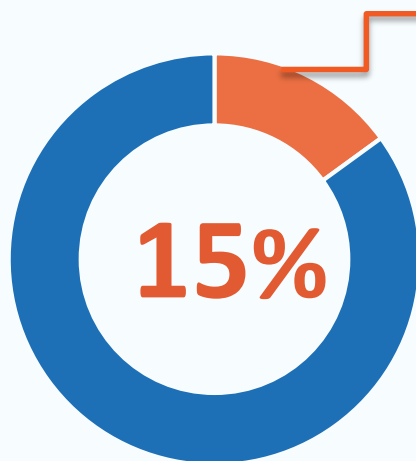
## Feedback–Possible Actions (Part 1)

### Revising the ISAs

#### Written Responses:

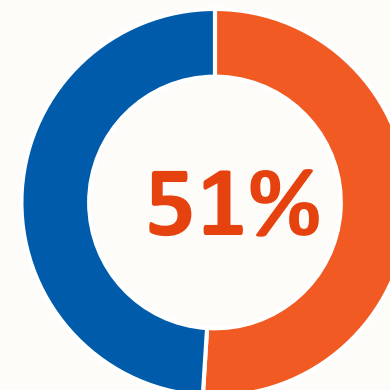
- Support for ‘building-blocks’ approach
- Mixed views about targeted approach versus a ‘big bang’
- Would be most effective solution in addressing issues/challenges, but recognition that not timely
- Need simpler language and principles-based requirements
- Need more scalability and proportionality

#### IFAC Survey:



- 45% Building blocks
- 35% Greater Focus on what the auditor needs to do

#### Paris LCE Conference:





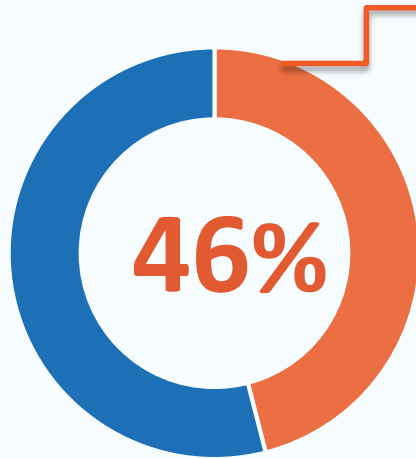
## Feedback–Possible Actions (Part 2)

### Separate Standard

#### Written Responses:

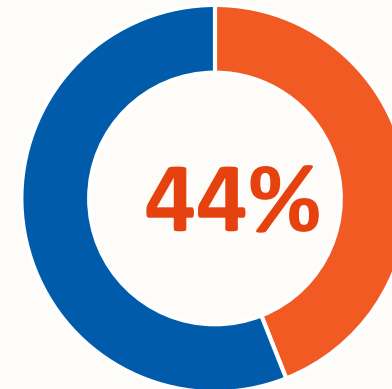
- More timely - would be quicker than revising all of the ISAs
- Needs to be a reasonable level of assurance
- Little support for development of a separate standard using a different framework – i.e., not based on the ISAs

#### IFAC Survey:



- 60% Based on ISAs
- 38% Based on a Different Framework

#### Paris LCE Conference:



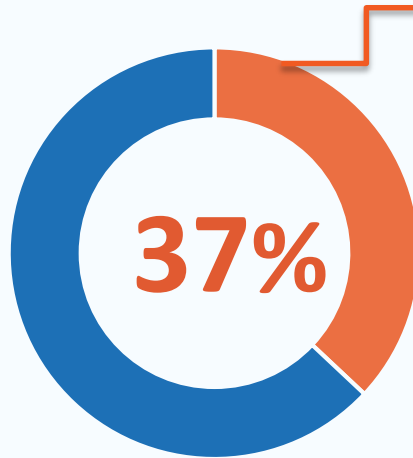
## Feedback–Possible Actions (Part 3)

### Guidance

#### Written Responses:

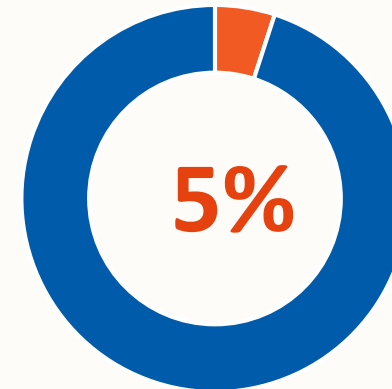
- Not seen as a standalone solution
- Need identified, but should support the other two options as appropriate

#### IFAC Survey:



- 44% Comprehensive ISA Guide
- 20% International Auditing Practice Note (IAPN)

#### Paris LCE Conference:



## Feedback Statement

- Feedback Statement (part of proposal for work on LCEs):

☐ Summarizing **what the IAASB has heard** from stakeholders (DP, Survey and Paris roundtable)

☐ To keep stakeholders **informed of progress** in relation to audits of LCEs



## Way Forward

- The LCE Working Group proposed a combination of approaches with two distinct workstreams that would run in the same time:
- **ISA Focused Workstream** to explore different approaches to revise the ISA
- **Separate Standard Workstream** to explore development of a separate standard(s) for audits of LCEs

**Board broadly supported**

# ISA Focused Workstream

## ISA Focused Workstream

<b>Focus:</b>	Broader focus on addressing challenges in all ISAs
<b>Objective:</b>	To address challenges that have been identified in applying the ISAs in audits of all types of entities, including concerns relating to complexity, readability, understandability, scalability and proportionality of ISAs (for all audits)
<b>Expected Timing:</b>	Progress and milestones with specific actions, with specific milestones across the project, and all milestones completed in 5–7 years to address actions across all ISAs (depending on specific actions undertaken)

## Separate Standard Workstream

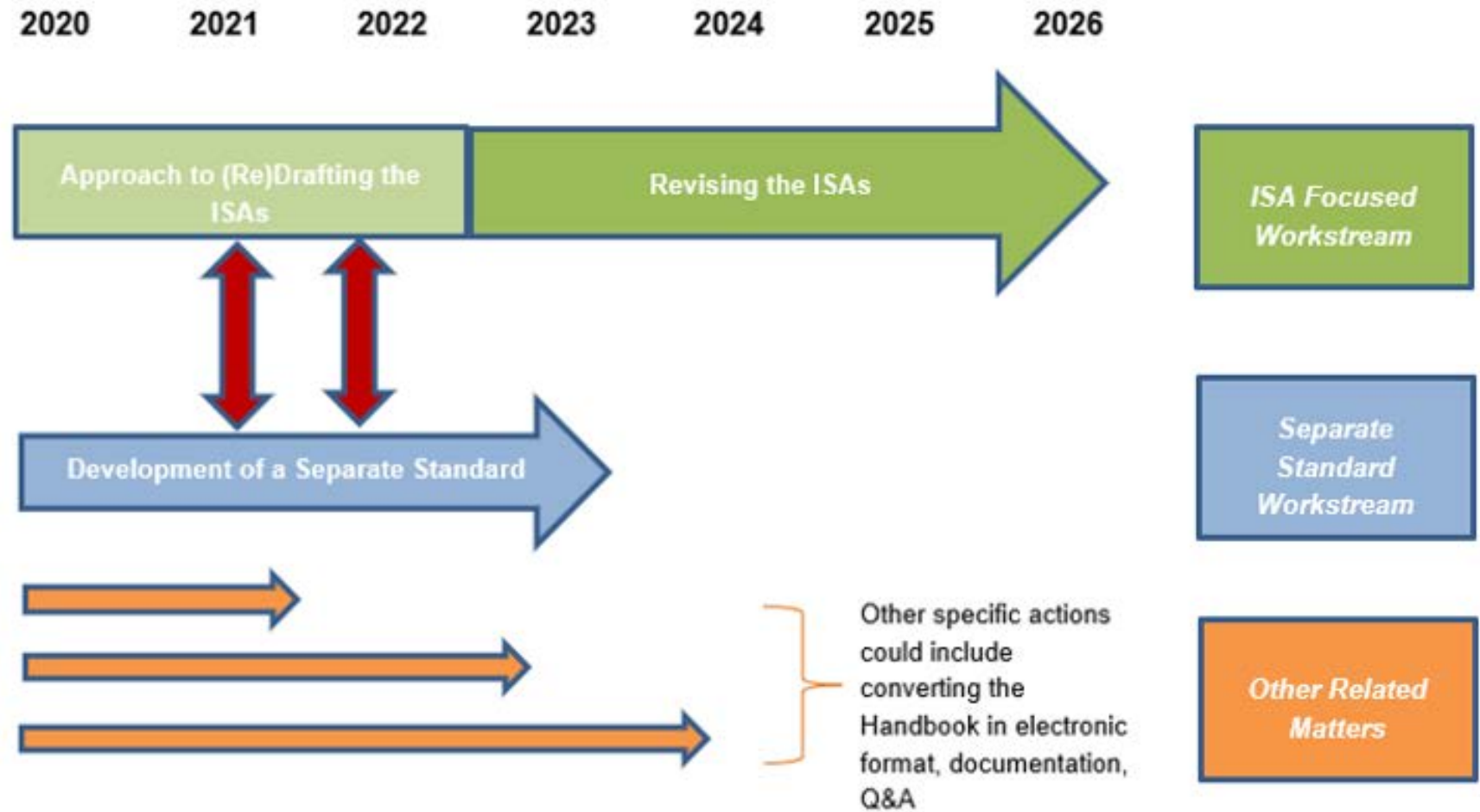
### Separate Standard Workstream

<b>Focus:</b>	Development of a separate standard(s) for Audits of LCE's only
<b>Objective:</b>	To address challenges in applying the ISAs in an audit of an LCE.
<b>Expected Timing:</b>	3–4 years



## Expected Timing to Complete

- Both workstreams will run in parallel - work from one workstream will inform the other
- Synergies between the two workstreams



## Matters for Consideration

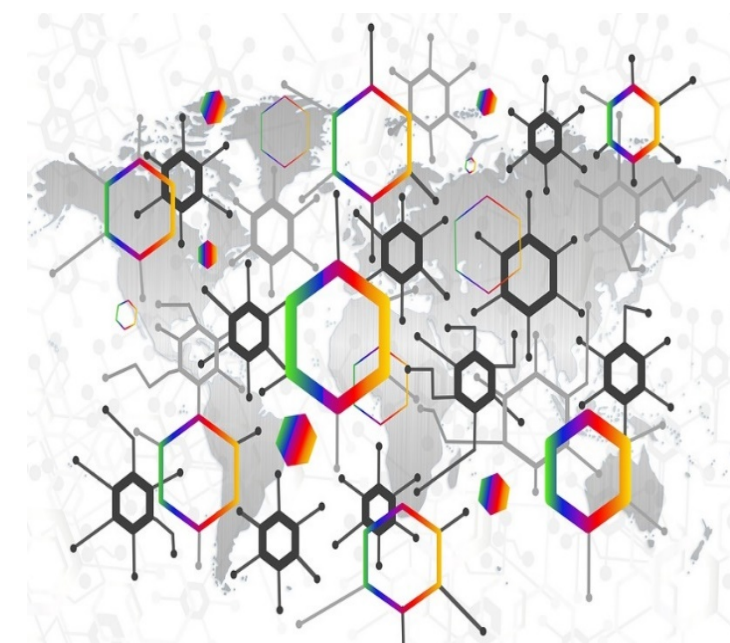
- **Question 1:**

CAG Representatives are asked for views on proposed direction to further inform proposals that will be discussed by IAASB in June 2020, in particular on the:

- (a) ISA Focused Workstream
- (b) Separate Standard Workstream

- **Question 2:**

CAG Representatives are asked whether there are any other matters that the IAASB should consider as it progresses on its way forward in relation to audits of LCEs





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