

Audits of Less Complex Entities – Draft ISA for Less Complex Entities

Objective of the Meeting

To approve the [draft] International Standard on Auditing (ISA) for Financial Statements of Less Complex Entities (the [draft] ISA for LCE) (**Agenda Item 2-A**), the proposed conforming amendments to the *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* (the IAASB Preface), and accompanying documents, for public exposure.

Board Discussion

The majority of the Board time for this topic will be focused on the discussion of the [draft] ISA for LCE in **Agenda Item 2-A**, with limited discussion of the supporting “mapping” documents (**Agenda Items 2-B(1) and Agenda Item 2-B(2)**). In addition, time permitting, the *Supplemental Guidance for the Authority of the Standard* (**Agenda Item 2-C**) and the topics proposed to be included in the Explanatory Memorandum (EM) (see **Section IV** of this Agenda Item) will also be discussed. The Board will also be asked to approve the proposed conforming amendments to the IAASB Preface so that this can be exposed with the draft standard.

[Draft] ISA for LCE

The LCE Task Force (Task Force) Chair will walk-through the [draft] ISA for LCE (**Agenda Item 2-A**), from front to back, stopping on each Part for Board views on that Part. The Task Force Chair will then invite comments on the mapping documents, the *Supplemental Guidance for the Authority for the Standard* and the topics to be included in the EM.

Documents Presented at this Meeting

- **Agenda Item 2-A** – [Draft] ISA for LCE
- **Agenda Items 2-B(1) and Agenda Item 2-B(2)**–Mapping Documents. It is not proposed that the Task Force Chair will walk-through these documents, but will ask Board members to raise any additional significant matters that have not been raised in the walk-through of the [draft] ISA for LCE.
- **Agenda Item 2-C**–*Supplemental Guidance for the Authority of the Standard*. Board members will be asked to raise any significant matters about the content of the document.
- **Agenda Item 2-D**–Conforming Amendments to the *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*. Board members will be asked to approve these for exposure.
- **Supplement 1 to Agenda Item 2**–Definitions. These will not be discussed.
- **Supplement 2 to Agenda Item 2**–Supplement to the [draft] ISA for LCE on Modified Auditor’s Reports. It is not intended that this supplement is discussed unless there are any matters of a fatal flaw nature.

Format of Agenda Item 2 (this Issues Paper)

To facilitate the Board's preparations, this Agenda Item includes:

- **Section I** – Introduction to this Agenda Item, including explaining the appendices to this Agenda Item.
- **Section II** – Significant Changes Made to the [Draft] ISA for LCE Since March or May 2021, which explains changes made to the Authority and rest of the standard to respond to board comments.
- **Section III** – Mapping documents.
- **Section IV** – Due Process Matters.
- **Section V** – Topics to be included in the Explanatory Memorandum.

I. Introduction

What Have We Done Since We Last Met?

1. The [draft] ISA for LCE presented in **Agenda Item 2-A** has been progressed from the draft presented for discussion at the March 2021 IAASB meeting. This revised draft also includes further consideration of the changes to Part A (Authority – previously the Applicability) that was discussed with the Board in May 2021. Draft minutes for the March and May 2021 IAASB meetings can be found in **Appendices 2 and 3**, respectively.
2. The supporting Mapping Documents (**Agenda Items 2-B(1) and 2-B(2)**), which explain how the ISA requirements have, or have not, been incorporated within the [draft] ISA or LCE, have also been progressed, including further efforts to explain more clearly how the ISA requirements have, or have not, been incorporated
3. The [draft] ISA for LCE presented for discussion at this meeting has benefited from input from:
 - (i) The LCE Reference Group. Where applicable, a high-level summary of the input from this group has been included in each relevant section of this Agenda Item.
 - (ii) IFAC's Small and Medium Practices (SMP) Advisory Group. **Appendix 4** sets out a high-level summary of comments from this group.
4. Discussions in relation to the [draft] ISA for LCE have also taken place with National Standard Setter (NSS) representatives in May 2021 who were asked to provide their perspectives on the authority of the [draft] ISA for LCE, and views about whether the standard could and would be used in their jurisdictions. **Appendix 5** sets out a high-level overview of comments from this group.
5. **Appendix 1** sets out the members of the LCE Task Force as well as its activities.

Issuing an Exposure Draft for Public Exposure

6. The Project Proposal recognized the need to be responsive to stakeholder needs by developing requirements targeted at, and appropriate for, the nature and circumstance of the audit of an LCE, and maintaining a standard that is fit-for purpose (i.e., is appropriate for the nature and circumstances

of an audit of a LCE) and would be responsive to those stakeholders who could use and benefit from the standard.

7. The Task Force is of the strong view that it is in the public interest to expose the draft standard to obtain feedback from those for whom the standard is intended, as was also emphasized by the PIOB at the March 2021 IAASB meeting. Understanding whether the standard can, and will, be used is critical to progressing the draft to finalization as a global standard. This message has also been reinforced in the outreach activities related to this project.
8. It was also highlighted at the recent NSS meeting that the development of a standard for auditing LCEs would form an essential part of the 'toolkit' of NSS in supporting the profession within their jurisdictions, and it was therefore important that progress be made on a timely basis.
9. The Task Force chair will provide an oral update at the June 2021 IAASB meeting on the plan for outreach during the period that the standard is out for exposure.

Coordination with Other IAASB Task Force and Working Groups

10. The development of the [draft] ISA for LCE is one aspect of the work being undertaken by the IAASB to address Complexity, Understandability, Scalability and Proportionality (CUSP). The drafting principles and guidelines being developed by the CUSP Working Group have been used in drafting the standard as appropriate (Appendix 6 sets out the drafting principles used when drafting the [draft] ISA for LCE). The LCE Task Force will continue to coordinate with the CUSP Working Group as the [draft] ISA for LCE is progressed, and the CUSP Working Group's *Drafting Principles and Guidelines* are finalized.
11. The LCE Working group will also continue to coordinate with the International Ethics Standards Board for Accountants (IESBA) as it progresses its work on its Definition of Listed Entity and Public Interest Entity project (further explained in paragraphs 16–18 below).
12. The LCE Task Force will also continue to liaise with the Group Audits Task Force as the EM for the exposure draft (ED) is developed, in particular related to the section on the exclusion of group audits from the authority for the standard.

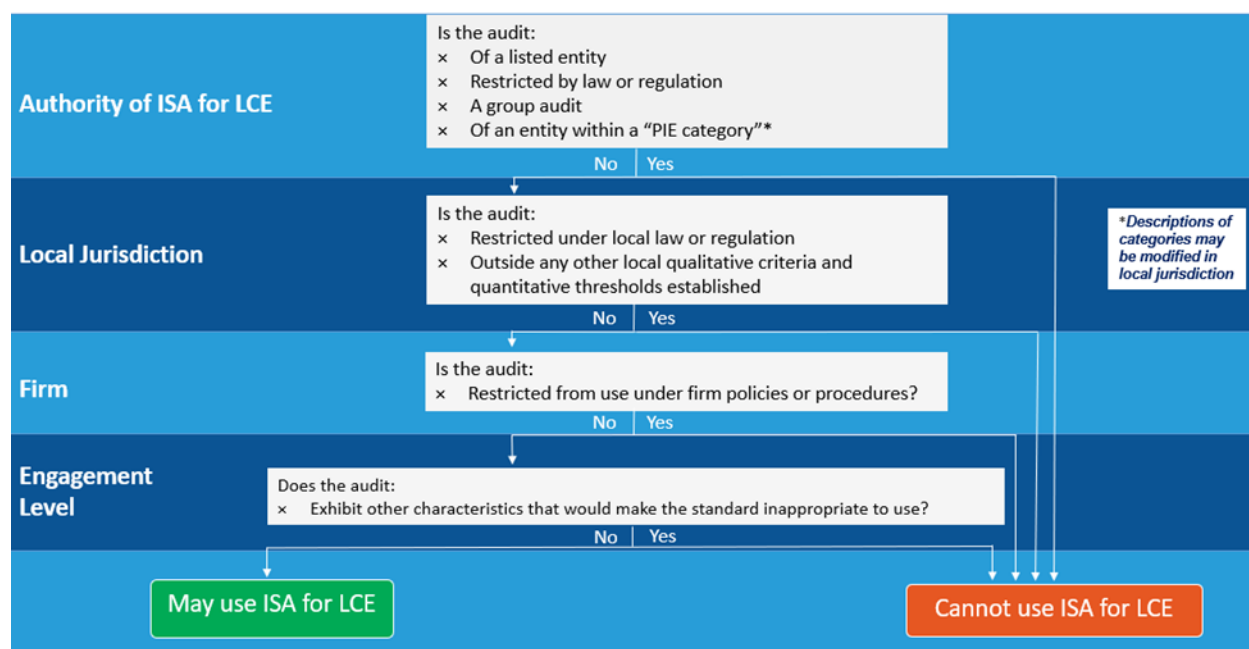
II. Significant Changes Made to the [Draft] ISA for LCE Since March or May 2021

Matters for Board Consideration

1. The Board is asked for views on the requirements or other material within each Part of the [draft] ISA for LCE:
 - (a) The Preface
 - (b) The Authority of the Standard (Part A)
 - (c) Part 1.
 - (d) Part 2.
 - (e) Part 3.
 - (f) Part 4.

- (g) Part 5.
 - (h) Part 6.
 - (i) Part 7.
 - (j) Part 8.
 - (k) Part 9.
 - (l) Appendices (to the extent not addressed in a specific Part).
2. With regard to *The Supplemental Guidance for the Authority of the Standard* (**Agenda Item 2-C**), the Board is asked whether there are any significant matters that the Task Force should consider so that this document can be finalized to accompany ED of the [draft] ISA for LCE.

Authority (Part A)–Changes Made Since May 2021 IAASB Discussion



13. Following the targeted discussion on the authority of the [draft] ISA for LCE with the IAASB in May 2021, further changes have been made to Part A:
- (a) To restructure and revise the Part to better provide context for the content of the standard, and make clear what the roles of the main stakeholders are.
 - (b) The explanation of the role of the jurisdictions has been moved to the end, but has not diminished the role of the jurisdiction from the way it was always intended (i.e., the responsibilities of the jurisdiction remain the same as presented in May 2021). The description of the role of firms and practitioners has also been clarified.
 - (c) To provide clearer and more easily understood descriptions of the key concepts covered in the Part.

- (d) To better describe which, and how, restrictions can be modified by a local jurisdiction.
 - (e) To provide further clarity on the qualitative characteristics used to describe complexity, including further describing each of the matters presented to help users understand what is meant by complexity for that characteristic.
14. Notwithstanding the changes, which are mainly targeted at restructuring and clarification, the broad approach presented for discussion at the May 2021 IAASB meeting has not changed.
15. The Task Force has clarified that the limitations for use comprise two parts:
- (i) Specific restrictions; and
 - (ii) Qualitative characteristics that describe complex characteristics that could make the standard inappropriate to use.

The section on limitations of use also explains the overarching principles and clarifies that it is these principles that (i) and (ii) above are based. In addition, revisions have been made to the wording to better reflect principles.

16. The list of specifically restricted entities has been broadly retained as was presented in May 2021. This list aligned with the public interest entity (PIE) categories developed and exposed in the IESBA's Definition of Listed Entity and Public Interest Entity project. Mixed views about using the IESBA's list of PIE categories was received from both the Board and, in particular, at the NSS meeting. In addition, the IESBA has received mixed views on its approach to describing PIE's, and further changes may be forthcoming but will not be finalized before the ED for the [draft] ISA for LCE is published. Therefore, it will be noted in the IAASB's ED that further changes to the IAASB's proposals in its ED for restricted entities may still be needed in light of the changes made by the IESBA in finalizing its definition of PIEs and any other consequential changes made in the IAASB's International Standards.
17. Further reflection on this list of categories of entity that have been restricted (because they exhibit public interest characteristics) confirmed that the list represents the broad categories of entities for which it would be inappropriate to use the [draft] ISA for LCE. The Task Force therefore agreed that the list of categories should be retained, regardless of possible changes to the IESBA's PIE definition. Consideration has also been given to whether to further explain each of the categories, which has been done in the *Supplemental Guidance for the Authority of the Standard*. It has also been clarified for which of these categories modifications may be made, and examples are now provided in the supplemental guide supporting the authority.
18. The only change that has been made to an individual category of restricted entity relates to the category that was specifically designated as a PIE by law or regulation (i.e., paragraph A.9.(c)(v) in Agenda Item 4-A from the May 2021 IAASB meeting). In the IESBA's proposed PIE definition, this category related to the proposed overarching objective of determining which entities should be categorized as PIEs in a local code for the purpose of defining those entities which require additional independence requirements. For the purpose of determining which entities should be restricted from using the [draft] ISA for LCE, and in light of the uncertainty around the definition of PIE, the Task Force has agreed that jurisdictions should be able to further restrict entities from using the [draft] ISA for LCE but have not linked this decision to the definition of PIEs (although a jurisdiction could modify this category to apply to PIEs as this is a category that can be modified by a jurisdiction). This change would also accommodate those jurisdictions that do not use the IESBA *International Code of Ethics*

for *Professional Accountants (including International Independence Standards)* (IESBA Code) or have a definition of PIE.

19. In not making further changes, the Task Force also considered whether the full list would adequately capture those entities intended to be excluded if a jurisdiction made no further changes to the authority. It was concluded that this list was adequate.
20. It is proposed that a specific question on this approach is included in the EM. The Task Force will continue following the work of the IESBA on its Definition of Listed Entity and Public Interest Entity project, and will revisit the approach to how these entities are described in the [draft] ISA for LCE as necessary once there is clarity as to the way forward for the purpose of the Ethics Code.
21. The Task Force has also added a footnote to describe the definition of a group so that respondents to the ED understand what is covered by this restriction. The definition from the exposure draft of ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* has been used and a note added that this may still change as the definition is still being discussed by the IAASB.
22. In considering clarifying the role of firms and practitioners, changes have been made within Part A to describe what the role of each is. With regard to the practitioner, the Task Force also reconsidered the requirements and guidance within the standard on the role of the practitioner to determine the appropriateness of the standard for a particular engagement. Changes and enhancements have been made as follows:
 - (i) Engagement acceptance and continuance—a new requirement has been added to clarify that the initial determination with regard to use of the standard needed to be made at the point that the engagement is accepted or the decision made to continue with the audit engagement (see paragraph 4.2.1. in Agenda Item 2-A) with a relevant documentation requirement (see paragraph 4.8.2. in Agenda Item 2-A).
 - (ii) The stand-back in Part 6 once the auditor has completed the identification and assessment of the risks of material misstatement remains (see paragraph 6.5.9. in Agenda Item 2-A) but has been made more robust for the auditor to evaluate that the original determination is still correct. This also has a corresponding documentation requirement (see paragraph 6.8.2. in Agenda Item 2-A).
 - (iii) The Task Force also had the view that should additional information come to the attention of the auditor during the course of the audit that would make the auditor reconsider the original risk assessments made, this may also trigger a reconsideration of the use of the [draft] ISA for LCE. Application material has been added to paragraph 8.5.1. to this effect. In addition, an overarching documentation requirement has been added to paragraph 4.8.3. to document any changes made in the original determination of the appropriate use of the standard.

Comments from LCE Reference Group¹

- Support for the revised approach to the Authority, including the responsibilities within the jurisdiction, and the approach to the “entities with PIE characteristics.”

¹ Comments from the Reference Group are the views or comments from individual participants unless otherwise noted.

- Consistent with IAASB comments from May 2021, participants encouraged clearer requirements on what the legislative authorities or other relevant local bodies may change.
- One participant noted that by framing the focus on who cannot use the standard rather than who can, it may be perceived negatively.
- It was noted that clarity is needed about how the standard can be used for the purpose of a group audit if the entity has used the ISA for LCE (e.g., for a statutory audit).

23. The *Supplemental Guidance for the Authority of the Standard* (**Agenda Item 1-C**) has also been revised from the draft that was presented to the IAASB at the May 2021 meeting:
- (a) Updates have been made to further clarify which restrictions can be modified within the local jurisdiction by legislative authority or relevant local bodies and how that may be done.
 - (b) General re-ordering and wording improvements for clarity based on feedback from the Board members.
 - (c) Section I, related to characteristics that describe complexity, has been incorporated in the relevant descriptions upfront and streamlined and updated to provide more specificity.
24. The Task Force is of the view that the *Supplemental Guidance for the Authority of the Standard* should be included in the package provided for exposure in order to help provide context for respondents about the authority of the standard.

Title of the Standard

25. Concerns were raised at the March 2021 meeting by a few Board members about the title of the standard, in particular that it was being presented as an International Standard on Auditing. The Task Force further considered whether changes to the title would need to be made.
26. The IAASB Preface is issued to facilitate understanding of the scope and authority of the pronouncements that the IAASB issues, as set forth in the IAASB's [Terms of Reference](#). The IAASB's Terms of Reference include that the "IAASB develops and issues International Standards on Auditing and International Standards on Review Engagements (ISREs) to be applied in audit and review engagements on historical financial information." The Terms of Reference also states that the IAASB publishes other pronouncements on auditing and assurance matters, thereby advancing public understanding of the roles and responsibility of professional auditors and assurance service providers.
27. The auditing standard for audits of LCEs is an international standard and addresses audits of historical financial information. The Task Force therefore considered whether to add the LCE standard to the existing International Standards on Auditing (for example by creating a 900-series). However, to maintain the standalone nature of the standard the Task Force did not believe that this was the appropriate placement of the standard for auditing LCE's within the IAASB's International Pronouncements.

28. The Task Force therefore concluded a ‘new category’ of standards would need to be created² (with changes made as appropriate to the IAASB Preface (see proposed conforming amendments to the Preface set out in **Agenda Item 2-D**)).
29. The Task Force considered how the title could be distinguished from the ISAs so as not to create confusion about which standards had been used for a particular audit. In the view of the Task Force creating a new category of international standard should describe the standard, but at the same time make it recognizable as the IAASB’s standard. Therefore, the title “International Standard on Auditing (ISA) for Audits of Financial Statements of Less Complex Entities (ISA for LCE)” still maintains the recognizability that it is an IAASB standard but distinguishes the standard from the ISAs themselves by referring specifically to audits of LCEs. The ‘titling convention’ is also consistent with the approach used by the International Accounting Standards Board (IASB) in distinguishing their standard for small and medium sized entities from the full International Financial Reporting Standards (IFRS). Therefore, no further changes have been made to the title of the standard.
30. It is proposed that a specific question be added to the EM regarding the title of the ISA.

Definitions

31. At the March 2021 IAASB meeting, it was reinforced that the definitions needed to form part of the [draft] ISA for LCE and not be situated outside of the standard as that could lead to questions about the authority of the definitions within the standard. Although the Task Force considers that adding the relevant ISA definitions to the standard would add length to the standard, it also recognizes that these definitions that form part of the standard (and are within the remit of its authority) will need to be included in the standard.
32. The definitions will therefore be included in the standard as an appendix. Given that comments would not be invited on the definitions (as they already are defined in the full ISAs and there is no intention to have any different meanings between the same words in the two sets of standards), the appendix will not be included in full in the ED. Instead, a link will be provided to an electronic version for those that wish to view the relevant definitions.
33. Once the ISA for LCE is moved into an electronic format, this will become less of an issue as all definitions will be incorporated in the same way (i.e., a “pop-up” with the relevant definition will appear once a word that is defined is selected).
34. It has also been clarified in Part 1 of the draft standard that the entire text of the [draft] ISA for LCE (which would include the appendices (i.e., the definitions)), is relevant to an understanding of the objective of the standard and the proper application of the requirements. In this way the definitions have been incorporated into the authoritative text of the standard.

Maintenance of the ISA for LCE–Maintaining the ‘Stable Platform’

35. The [draft] ISA for LCE explains that amendments will be made to the content of the standard periodically, but not more frequently than once every three years (i.e., maintain a ‘stable platform’).

² Technically the Terms of Reference would allow for developing other standards related to auditing (see paragraph 26 above) and it will be further explored whether this would need to change. If needed, changes will be made following appropriate due process.

36. At the March 2021 IAASB meeting some Board members strongly encouraged that the ISA for LCE be updated at the same time as the related ISA is revised.
37. It continues to be the view of the Task Force that the stable platform should be maintained – this is consistently heard in outreach with stakeholders representing small and medium sized practices (SMPs) and small and medium sized entities (SMEs) (and has been heard throughout the course of the discussions on matters related to SME's and SMPs as this project has been progressed). It has been highlighted by relevant stakeholders that the amendments to the ISAs are often targeted at issues identified through inspections or other mechanisms highlighting issues within entities with more significant public interest characteristics.
38. It is also the view of the Task Force that, because of the nature of the entities for which the ISA for LCE would be appropriate, there are generally no changes that would need to be urgently made within the standard because of the public interest profile of such entities and that would deem the continued use of the ISA for LCE to pose a risk to audit quality. This would be consistent with the view that the extant ISAs provide high-quality audits even when there is a new or revised standard finalized but not yet effective or has not been adopted at the effective date. In addition, because of the more significant process for revising ISAs the effective date of changes made to the ISA may not be substantially different to the effective date of the relevant revisions to the ISA for LCE. Also, if there were a matter that would make the ISA for LCE inoperable in the circumstance if a change were not made, there is the ability to process a narrow scope amendment to make such a change.
39. For the purpose of developing an exposure draft for revisions to the [draft] ISA for LCE, the IAASB would consider new and revised ISAs (including those that may not yet be effective), as well as specific issues that have been brought to the attention of the IAASB regarding application of the ISA for LCE.
40. Consistent with the normal timeline for amendments to ISAs, it is expected that there will be a period of at least eighteen months between when amendments to the ISA for LCE are issued and the effective date of those amendments with the option to adopt the revisions to the ISA for LCE early. The [draft] ISA for LCE is a standalone document and therefore users should not anticipate or apply changes made in the ISAs before the changes are incorporated in the [draft] ISA for LCE.
41. The Task Force also continue to observe the lessons learned from the IASB's implementation of the *IFRS for Small and Medium Sized Entities* (IFRS for SMEs), where a longer update cycle is now being considered (mainly in order to allow for post implementation reviews to be performed).
42. It is proposed that a specific question is added into the EM to gather feedback on the approach to the maintenance of the ISA for LCE.

Transitioning from the ISA for LCE to the ISAs

43. At this stage, the Task Force has not added specific guidance on transitioning from the [draft] ISA for LCE to the ISAs (for example, during the audit it may be discovered that the ISA for LCE is not appropriate and the auditor is required to use the ISAs for the necessary procedures in order to obtain sufficient appropriate audit evidence on which to base the audit opinion). The [draft] ISA for LCE is not yet finalized, and any transition to the ISAs would need to be based on the content of the final ISA for LCE. Although helpful for practitioners and firms, the Task Force is of the view that it is not

needed until the standard has been exposed and comments received about the viability and usability of the standard, and the standard further progressed.

44. The Task Force does, however, recognize the importance of the IAASB's stakeholders understanding what the differences are between the [draft] ISA for LCE and the ISAs in order to provide feedback on the consultation.
45. The basis for the development of the [draft] ISA for LCE was set out in the scope of the project in the [project proposal](#) approved by the IAASB in December 2020, and broadly includes that the standard would:
- (i) Be based on the ISAs, i.e., using the same underlying concepts as the ISAs.
 - (ii) Be a risk-based approach to an audit so that it can be applied to entities with a wide range of circumstances that have common features of being less complex.
 - (iii) Contain requirements that:
 - Are principles-based and set out the auditor's obligations for obtaining sufficient appropriate audit evidence. Principles-based requirements will also enable scalability for individual circumstances of an LCE.
 - Are focused on the expected output of the requirement.
 - Are based on the requirements from the ISAs that are considered core to an audit, adapted as appropriate for an audit of an LCE, and relevant and suitable to the circumstances.
 - (iv) Be premised on compliance with the IAASB's quality management standards, including ISQM 1³ and ISQM 2⁴ or national standards that are equally demanding, and the IESBA Code) related to an audit of financial statements together with national requirements that are more restrictive.
 - (v) Follow the flow of an audit that supports the practical application of the standard for audits where the circumstances are such that the audit is deemed to be less complex.
 - (vi) Include requirements that will enable the issuance of a reasonable assurance opinion and describe circumstances where that opinion may need to be modified.
46. The mapping documents in **Agenda Items 2-B(1) and 2-B(2)** set out the detailed similarities and differences by ISA. Broadly, there are four 'categories' of changes made to the ISAs to incorporate the requirements within the [draft] ISA for LCE:
- (i) The requirements have been included in the [draft] ISA for LCE "as is."
 - (ii) The entire ISA has been omitted (e.g., ISA 610 (Revised 2013)⁵ and ISA 701⁶).

³ International Standards on Quality Control (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews for Financial Statements, or Other Assurance or Related Services Engagements*

⁴ ISQM 2, *Engagement Quality Reviews*

⁵ ISA 610 (Revised 2013), *Using the Work of Internal Auditors*

⁶ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

- (iii) Specific requirements within an ISA have been omitted (these have been detailed within the mapping documents) including:
 - Requirements that address matters or circumstances that would relate to entities that have been specifically excluded for the scope of the standard, for example anything related to listed entities or group audits.
 - Requirements that address complex matters or circumstances (in line with how the other relevant qualitative characteristics in the authority have been described).
 - Requirements that accommodate jurisdictional specific circumstances, in particular relating to law or regulation (the jurisdiction has the option to add these back when adopting the standard if needed for that specific jurisdiction).⁷
 - For circumstances which are explained as being “rare” or “exceptional” in the ISAs (there are exceptions to this and each exception has been further explained in the mapping documents).
 - (iv) Wording of some requirements have been modified or adapted to the nature and circumstances of the audit of an LCE but are expected to deliver a similar outcome as the ISA requirement in the context of an audit of an LCE.
47. The standard has been developed following the flow of an audit, which is different to the way that the ISAs are structured (i.e., by topic). Accordingly, there are some ISAs where that particular topic has been placed in the relevant parts of the [draft] ISA for LCE, which in some cases has necessitated changes to the relevant requirement, for example fraud, law or regulation, audit evidence, going concern and communications with those charged with governance.
48. In modifying or adapting the requirements to the nature and circumstances of an audit of an LCE, there are assumptions that have been made that have impacted the way the ISA requirements have been incorporated within the [draft] ISA for LCE. For some areas, there may be a mix of the ‘categories’ of changes described in paragraph 46 (iii) and (iv), i.e., there may be some requirements that have been omitted, while others may have been modified. These areas include:
- (i) Work done in an interim period.
 - (ii) Control testing as a response to an identified risk of material misstatement.
 - (iii) Using the work of an auditor’s expert.
 - (iv) Where the entity uses a service organization for processing transactions.
 - (v) Other information (i.e., provided with the financial statements).
49. In making these changes, the Task Force is of the view that the ‘core’ requirements for an audit that is proportionate to the intended nature and circumstances of an LCE have been addressed (in particular in the ‘performance’ part of the audit) and therefore that reasonable assurance would still be able to be obtained.

⁷ As with the ISAs, there is the ability to include additional requirements within the [draft] ISA for LCE if a specific jurisdiction needs additional requirements as this does not detract from obtaining sufficient appropriate audit evidence to support the audit opinion. However, requirements cannot be deleted.

Drafting Principles

50. The work currently being undertaken by the CUSP Working Group to develop drafting principles and guidelines has been considered, where applicable and appropriate, when drafting the requirements within the [draft] ISA for LCE. **Appendix 6** to this Agenda Item sets out the broad drafting principles used when in developing the [draft] ISA for LCE.
51. In finalizing the ISA for LCE post-exposure, the Task Force will further consider the CUSP drafting principles and guidelines that are aimed to be finalized at that point.

Changes to the [Draft] ISA for LCE

52. The draft standard was discussed with the IAASB in March 2021. Comments and issues raised at the meeting and in the written comments received have been considered and changes made where, in the view of the Task Force, they are needed. In doing so, there has also been a continued focus on maintaining a balance between what is included in the content of the standard (i.e., focusing on the core requirements) and increasing the complexity and length of the standard.
53. This section explains the substantial changes that have been made but does not address all changes, in particular where changes have been made to specific requirements. In addition to changes to specific requirements to respond to comments received, changes to align with the drafting principles have been made, as well as to improve clarity and consistency where needed.
54. The symbols used to help highlight where requirements related to the auditor's exercise of professional skepticism and to documentation requirements have been removed. Feedback received from the IAASB in March 2021 was mixed, but when considered on balance with feedback from other outreach, the decision was made to remove them from the draft for exposure. In particular, it had been noted that the symbols indicating where professional skepticism should be exercised was judgmental and may also suggest that professional skepticism was not needed for any other requirements without the symbol.
55. The essential explanatory material (EEM) continues to be presented in italics within separate blue boxes. Some IAASB members had commented that the presentation of these blue boxes sometimes overwhelmed the requirements in some places, although there were mixed views on this presentation of the EEM. The Task Force continues to believe that this is an appropriate way for these paragraphs to be distinguished. Changes have also been made to the presentation where there were long paragraphs or many EEM paragraphs together, where possible.
56. There has been substantial additional EEM added throughout the [draft] standard as Board members noted that if the standard is to be standalone, there may not be sufficient context for some concepts or requirements. Board member comments highlighted many existing application material paragraphs that would be helpful. Existing EEM has also been reviewed to ensure that no implied requirements that would extend the auditor's work effort have been included.

General Comments from LCE Reference Group on the [draft] ISA for LCE⁸

- Concern was raised about the increase in length of the standard since the last draft, acknowledging that many, but not all additions are EEM. The participants cautioned that extending the length in this way may result in expectations for a shorter, more understandable standard not being met, and may therefore not be used.
- It was noted that adding more requirements from the full ISAs gave the appearance that the full ISAs was the appropriate ‘starting point,’ rather than what would be required to be performed to obtain reasonable assurance in a typical audit of an LCE.
- Participants encouraged the Task Force to continue including requirements that are outcome- based and strike the right balance with regard documentation, particularly in areas such as risk assessment.

Restructuring Parts 1 to 3

57. The IAASB expressed concern about the clarity and structure of Part 3 on Audit Evidence in the March draft, noting it covered procedural matters that were not necessarily directly related to the more overarching concept of audit evidence. It was also highlighted that the Part on Audit Evidence should precede the requirements for Quality Management as audit evidence was also applicable broadly to those requirements.
58. Part 3 has been revised to focus on the more conceptual concepts related to audit evidence. Other topics previously included have been either moved to Part 1 (when they were considered overarching considerations for the auditor throughout the audit) or to Part 7 (when they were more specific to the auditor’s procedures when responding to assessed risks of material misstatement) as appropriate.
59. Overarching Documentation requirements, which in the view of the Task Force are closely linked to the overarching concept of audit evidence, have been left with the overarching concepts of audit evidence (Part 2 has been renamed “Audit Evidence and Documentation”).
60. The Part on ‘Audit Evidence and Documentation’ has also been relocated before the Part on ‘Quality Management.’

Risk Identification and Assessment (Part 6)

61. In March 2021, the Board expressed mixed views on the content of Part 6 on the auditor’s identification and assessment of the risks of material misstatement. Some Board members had the view that the requirements should replicate what is in ISA 315 (Revised 2019)⁹ as the ISA was not yet effective and therefore it would be more prudent to not modify the requirements in any way. Other Board members had the view that modification of this Part, while maintaining the robustness of the requirements of ISA 315 (Revised 2019) but with changes for the nature and circumstances of an LCE would make the difference in an LCE audit. Various suggestions of areas that could be modified were provided.

⁸ Comments from the Reference Group are the views or comments from individual participants unless otherwise noted.

⁹ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

62. Changes had already been made to modify the requirements from ISA 315 (Revised 2019) to make them understandable and proportionate to the expected circumstances of an audit of an LCE. Further consideration has been given as to whether more should be done, but on balance the Task Force is of the view that a change in approach for this Part should not be made as the current requirements reflect a balance between the different views.
63. However, some specific changes have been made. Broadly, the 'action verbs' that had been changed in the auditor's understanding of the system of internal control have now been reinstated so that the requirements are consistent with the action required in the equivalent ISA (i.e., 'consider' has been changed back to 'evaluate'). In addition, EEM has also been added throughout the Part to support the requirements and help with understandability. The Task Force has also agreed that providing the flow chart for ISA 315 (Revised 2019) as an Appendix to the standard would be appropriate to help with understandability and further explains the iterative nature of the risk identification and assessment process.
64. The Task Force reconsidered whether the stand-back for the auditor's consideration about the appropriateness of the standard is still required in this Part. It was agreed that this was the most logical place for this requirement, although it was noted that it should be emphasized throughout the audit that the auditor should be considering whether there is information obtained that may indicate that the standard is not appropriate. To this end and as previously highlighted, Part 8 on Concluding has been enhanced to highlight that the auditor needs to remain alert to changes in the circumstances of the audit that may suggest that the standard is no longer appropriate.

Concluding (Part 8)

65. Part 8 has been restructured to more closely follow the flow of how the various activities related to concluding would flow in an audit. Some of the requirements in this Part had been combined into bullet lists. However, in doing so, this also had inadvertently changed the underlying requirement. Accordingly, the combined requirements have now been separated and the wording revised to align with the relevant ISA requirement more closely.

Reporting (Part 9)

66. Some material in Part 9 of the March 2021 draft of the ISA for LCE related to the auditor's activities for forming an opinion, and it was highlighted that this would be better placed within the concluding activities in Part 8. However, the Task Force agreed that these activities were more related to 'forming and opinion' and therefore no change has been made.
67. It was highlighted that the section on reporting was 'light' on requirements, and there were many areas where there would not be enough within the standard to help the auditor prepare an appropriate auditor's report. This section has been enhanced to address the relevant areas as appropriate to the nature and circumstances of an LCE audit. In particular, changes have been made to the required content of the auditor's report, modifications of the audit opinion and corresponding and comparative figures.
68. In addition to the illustrative auditor's report in Appendix 7, the Task Force agreed to provide an additional illustrative auditor's report to illustrate the situation where there is a material uncertainty related to going concern (see Appendix 8 of the [draft] ISA for LCE).

69. In the March draft of the standard, the Task Force explored whether a ‘shorter’ auditor’s report could be provided (by moving management’s and the auditor’s responsibilities to an appendix to the auditor’s report). In the view of the Task Force this would further distinguish the ISA for LCE report from an ISA report, and there was always the option to reincorporate the responsibilities back in the report if needed. However, the Board encouraged the Task Force to reconsider reinstating the illustrative auditor’s report to be consistent with the ISAs. Appendix 7 has now been updated to reflect the Boards comments.
70. It is still the view of the Task Force that there may be situations where an LCE voluntarily reports key audit matters (KAMs) in the auditor’s report. However, following concerns from the IAASB in March 2021 that this would undermine the principle of the standard being standalone, reporting of KAMs and the reference to ISA 701 have been removed from the draft standard with the intention that guidance could be provided on the use of ISA 701 in implementation guidance.
71. Staff have developed a [draft] non-authoritative guide (**Supplement 2 to Agenda Item 2**) to provide guidance and examples on modifications to the auditor’s report. In addition to the guide, jurisdictions or firms can also develop illustrative auditor’s reports as needed. This support guide addresses changes to the auditor’s report for emphasis of matter paragraphs, other matter paragraphs, as well as further guidance as to which reports may be appropriate in various circumstances. It is intended that this guide will be support the ED consultation.

Other Specific Changes

72. The following specific changes have also been made:
- (i) *Quality Management*—the content of Part 3 has been enhanced, in particular to include the behavioral aspects that were a significant part of the revision of ISA 220 (Revised).¹⁰
 - (ii) *External confirmations*—the material related to external confirmations has been enhanced in light of the importance of these as a typical procedure undertaken in audits of LCEs.
 - (iii) *Opening balances*—the auditor’s considerations related to opening balances has been enhanced as the March version of the draft had limited requirements on opening balances.
 - (iv) *Comparatives and corresponding figures*—Part 9 has been enhanced for the auditor’s considerations about comparatives or corresponding figures.
 - (v) *The entity’s use of service organizations*—clarifications have been made to make it clear what the auditor’s responsibilities are in relation to information processed at a service organization.
 - (vi) *Compliance frameworks*—have now been included and relevant changes made throughout to distinguish between compliance frameworks and fair presentation frameworks where necessary. The Preface has also been enhanced to describe what a ‘fair presentation’ and a ‘compliance’ framework are.
 - (vii) *Non-compliance with laws or regulations (NOCLAR)*—relevant core requirements related to NOCLAR have now been added in Part 1.

¹⁰ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

- (viii) Relevant paragraphs have been added in EEM to address public sector considerations, as well as for considerations related to automated tools and techniques.

Appendices

73. The Appendices to the [draft] ISA for LCE are set out below (significant changes made have been explained):
- *Appendix 1*—definitions for the [draft] ISA for LCE (new). The draft standard presented in Agenda Item 2-A has a placeholder (as explained in paragraphs 31–34 above). **Supplement 1 to Agenda Item 2** sets out the definitions that will be accessible from the ED.
 - *Appendix 2*— set the flowchart illustrating the iterative nature of the risk identification and assessment procedures.
 - *Appendix 3*— set outs the fraud risk factors for LCEs. The content in this appendix is from the appendix to ISA 240¹¹ relating to the fraud risk factors and has been updated to focus on those fraud risk factors that are relevant to LCEs.
 - *Appendix 4*—assertions that may be used in the audit (no changes). The content in this appendix is from the application material in ISA 315 (revised 2019) relating to the assertions that may be used.
 - *Appendix 5*— example engagement letter (no changes).
 - *Appendix 6*— example management representation letter (no changes).
 - *Appendix 7*— example of an unmodified auditor's report (changed as described in paragraph 69).
 - *Appendix 8*— example of an unmodified auditor's report with a material uncertainty related to going concern (new).

III. Mapping Documents

Matters for Board Consideration

3. The Board is asked whether there are any significant matters in the mapping documents in **Agenda Items 2-B(1) and Agenda Item 2-B(2)**, that have not already been addressed in the discussion of the various Parts of the [draft] ISA for LCE that should be considered in finalizing the exposure draft for consultation.

74. The “mapping” documents (**Agenda Items 2-B(1) and 2-B(2)**) illustrate how the ISA requirements have, or have not, been included within the [draft] ISA for LCE. All changes made to the [draft] ISA for LCE have been reflected in these documents.
75. The explanations included in these documents have been updated to be clearer on how requirements that are included in the [draft] ISA for LCE, but not verbatim, have been modified (e.g., to use a simpler sentence structure, inclusion in a bulleted list, requirements clarified to be outcome based

¹¹ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

etc.). Explanations of why some ISA requirements were not deemed appropriate or applicable for inclusion in the ISA for LCE have also been clarified to provide more detail as to the Task Force's conclusions.

76. It is intended that the mapping document will not form part of the consultation but a link will be provided to an electronic version for those that wish to view it for additional background.

IV. Due Process Matters

Matters for Board Consideration

4. The Board is asked for views on the planned exposure period.

Implications of the [draft] ISA for LCE on the IAASB's Other Standards

77. With the exception of the conforming amendments proposed to the IAASB Preface in Agenda Item 2-D, there is expected to be no further impact on other IAASB standards.

Exposure Period

78. The Task Force believes that due to the nature of the standard and for the relevant stakeholders, it is in the public interest to expose the draft for at least 180 days. This will enable translation and relevant outreach to encourage input from stakeholders the IAASB may not ordinarily hear from.

Due Process Matters

79. In the Task Force's view, the significant matters identified as a result of the deliberations from the beginning of this project have been included in issues papers presented to the Board for discussion. In the view of the Task Force there are no significant matters that have not been brought to the attention of the Board.
80. The Task Force does not believe that a further consultation paper, field testing or a roundtable is needed at this stage of the project, as substantial outreach with relevant stakeholders has been undertaken throughout the course of this project.

V. Topics for the Explanatory Memorandum

Matters for Board Consideration

5. The Board is asked whether there are other matters that should be included in the Explanatory Memorandum, in addition to those as outlined in Section IV on **Topics for the Explanatory Memorandum** above.

81. Accompanying the ED, an explanatory memorandum explaining the basis of development for the ISA for LCE will be provided. The following specific topics or areas will be addressed in the EM:
- (a) The background to the decision to develop a separate standard for Audits of LCEs, including the conclusions reached from the feedback received Discussion Paper (DP), *Audits of Less Complex Entities: Exploring Possible Options addressing the Challenges in Applying the ISAs*.

- (b) How the public interest issues identified in the project proposal will be addressed by the [draft] ISA for LCE.
 - (c) The principles used for developing the [draft] ISA for LCE to create requirements that:
 - (i) Are principles-based and set out the auditor's obligations for obtaining sufficient appropriate audit evidence.
 - (ii) Focused on the expected output of the requirement.
 - (iii) Are based on the requirements from the ISAs that are considered core to an audit, adapted as appropriate for an audit of an LCE, and relevant and suitable to the circumstances.
 - (iv) Follow the flow of an audit (and how the Parts are not based on topic-specific matters).
 - (v) Still result in the auditor obtaining reasonable assurance.
 - (d) The key assumptions made when developing the standard based on the overarching principles.
 - (e) The stable platform for maintaining the standard.
 - (f) Explaining the authority (applicability) of the standard and how it works.
 - (g) Explaining the main differences between the ISAs and the [draft] ISA for LCE (and linking to the mapping documents).
 - (h) Explaining why group audits are not included and what the different options are (as presented at the May 2021 Board call updated for Board views and comments).
 - (i) The approach to essential explanatory material and the need for guidance.
 - (j) Any significant decisions reached in developing the standard that have not already been addressed.
 - (k) The outreach plan to obtain input to the standard from all relevant stakeholders.
82. Specific feedback will be requested from respondents on:
- (a) The content of the Standard and Supporting supplements, including the principles used to develop the standard and the approach to EEM.
 - (b) The Authority of the [draft] ISA for LCE, including the role within local jurisdictions and the approach to the "PIE characteristics."
 - (c) The exclusion of group audits, as well as the approach to including them if they are to be included.
 - (d) The proposed approach to maintenance of the standard.
 - (e) Whether the standard could and would be used in their jurisdiction, and if not, why not.

Appendix 1

Task Force Members and Activities

Task Force Members

1. The LCE Task Force consists of the following members:
 - Kai Morten Hagen, IAASB Member and Task Force Chair, IFAC SMP Advisory Group Liaison and IESBA Coordination Liaison
 - Julie Corden, IAASB Member
 - Chun Wee Chiew, IAASB Member
 - Vivienne Bauer, IAASB Technical Advisor
 - Brendan Murtagh, Past IAASB Member
 - Christopher Arnold, IFAC SMP Advisory Group Representative
 - Roger Simnett, IAASB Member (Correspondent Member)
2. Information about the project can be found [here](#).

Task Force Activities Since the May 2020 IAASB Meeting (Virtual)

3. The LCE Task Force held six virtual meetings to progress the draft standard. Owing to the nature of the activities being undertaken, work was also progressed via electronic circulation of materials between IAASB staff and members of the Task Force.

Appendix 2

Draft Minutes from March 2021 IAASB Meeting – Audits of Less Complex Entities¹²

Introduction

Mr. Seidenstein introduced the session, highlighting that the Task Force had been working towards approval of the draft standard for exposure at the June 2021 Board meeting. He recognized that further work was still needed on the draft standard, and encouraged the Board to balance the desire to continue refining the draft standard and exposing the draft for feedback, in light of the Board's objective to be more agile and get user feedback earlier in the process. He also reminded the Board of the feedback from the Consultative Advisory Group (CAG), Public Interest Oversight Board (PIOB) and SMP Advisory Group on the urgency of exposing the draft for public consultation, emphasizing that it would be the Board's decision when that occurred, and in what format.

Mr. Hagen walked through an overview of key changes made to the draft standard and supporting documents (set out in Agenda Items 2-A, 2-B and 2-C from the March 2021 IAASB meeting).

Mr. Hagen and Mr. Dalkin highlighted that the IAASB Consultative Advisory Group (CAG) broadly supported the general direction of the draft standard. However, it was noted that CAG Representatives encouraged the Board to reconsider the need to exclude requirements relating to audits of group financial statements from the draft standard. It was also noted that some CAG Representatives encouraged that all public interest entities (PIE's) be excluded from the applicability of the standard.

General Comments

Mixed views were expressed about the draft standard. While some Board members broadly supported the overall approach and the resulting draft standard, others expressed concerns that the standard may not be adopted because of concerns about audit quality, while others had the view that it may still be too onerous for the types of entities that this standard was targeted at.

TIMELINE

Some Board members expressed concern with approving an exposure draft in June, although others had the view that it would be better to expose the standard as early as practicable in order to get stakeholder input. It was also suggested that if a consultation was undertaken that it should not be presented as an exposure draft but another type of consultation, such as a discussion paper or an invitation to comment.

It was noted that extensive consultation had already taken place leading up to and in development of the draft standard and taking longer to expose the standard would result in many expectations not being met, and risking (further) divergence in the audit environment as other jurisdictions develop standards for LCEs.

TITLE OF THE STANDARD

There were mixed views about the proposed title of the standard and whether it was appropriate. Some Board members suggested it may confuse users to see "ISA" in the title when it is a standalone standard and not part of an 'ISA' audit which offered a different set of robust procedures. It was noted that by titling the standard an ISA it therefore did not provide the transparency needed that this was a different standard

¹² The draft minutes are still subject to review by the IAASB and there may be further changes.

to the ISAs. Other members suggested that it would be as confusing to not see 'ISA' in the name, given that audits under either set of standards would result in reasonable assurance.

DEFINITIONS

The Board continued to express concern about referring to the Glossary of Terms for the definitions, noting that the definitions needed to form part of the authoritative text of the standard. The Board encouraged further consideration of including the definitions within the standard, for example in an appendix.

MAPPING DOCUMENTS

Although acknowledging the usefulness of the mapping documents, many Board members expressed concerns with the descriptions of the reasons that ISA requirements had been excluded or modified, as this was needed to assess that the level of work required by the ISA for LCE is commensurate with an audit using the ISAs and therefore enough to obtain reasonable assurance. It was also noted that it would be helpful to see an aggregate view of all changes from the ISAs (such as a summarized version).

MAINTENANCE PERIOD

Given the frequency that new standards, or updates to existing standards may be made that may be significant, concern was raised about the suggested frequency of updating the standard only once every three years. Incorporating changes to the ISA for LCE as part of the conforming amendments for a new or revised ISA was suggested. It was acknowledged, however, that the International Accounting Standards Board's (IASB) International Financial Reporting Standard for Small and Medium Sized Entities (IFRS for SMEs) is only updated every three years in a similar way to provide a stable platform for users of that standard, with more frequent updates being considered only on a case-by-case basis.

SYMBOLS

Mixed views were provided with regard the symbols used to signpost requirements related to the exercise of professional skepticism and to documentation requirements, with some members liking the concept but noting some inconsistency in their use and completeness. Concern was noted that practitioners may misunderstand that they only have to exercise professional skepticism for the procedures marked as such, rather than throughout the audit.

It was also suggested that in lieu of using the symbols, all documentation requirements are presented in one place, e.g., within an appendix rather than in the individual Parts.

GUIDANCE FOR USING THE STANDARD

Concern was expressed about the limited explanatory material within the standard, with concerns noted about how auditors would effectively implement the standard and how audit quality could be achieved. However, the Board was generally supportive of supplemental guidance to support the implementation of the standard, but reminded the LCE Task Force that such guidance is non-authoritative and should not create further obligations for the auditor that is not in the LCE standard. It was suggested that similar to the mapping documents for the draft standard, there should be principles established for what is included in guidance rather than in the standard, in order to help users understand the decisions about what is included.

ESSENTIAL EXPLANATORY MATERIAL

Although Board members found the presentation of the essential explanatory material (EEM) in the blue boxes helpful, highlighting that it helped distinguish the EEM from the requirements, some Board members found that the blue boxes disrupted the flow of the standard and were distracting.

TRANSITIONING

The Board continued to encourage further consideration by the LCE Task Force about how a practitioner would transition from the ISA for LCE to the ISAs.

LENGTH

The Board were generally supportive of the length of the standard, believing it to be appropriate for its purpose.

Applicability

There were mixed views regarding the scope and applicability (i.e., Part A) in the draft standard, with an overarching theme that it was still not clear as to what kind of audits the standard was intended to be used for. It was noted that it was not clear who the applicability was written for, and it was highlighted that there would unlikely be consistency achieved in applying the criteria.

Many Board members expressed concern with the reliance on professional judgment by firms or the individual auditor (for audits other than those specifically excluded), which may result in inconsistent or inappropriate use of the standard. There was concern that, as currently drafted, there is a large population of audits of entities not specifically excluded from the applicability for which the standard could be inappropriately used, which may negatively impact audit quality. The LCE Task Force was encouraged to clarify the applicability and to be more direct and precise so as to limit the amount of professional judgment needed when deciding whether the standard was appropriate to use or not.

Although the Board were generally supportive of individual jurisdictions having the ability to further refine the categories and criteria for use of the standard, the potential inconsistency for multi-jurisdiction audits was noted.

While acknowledging the reasons for excluding PIEs given jurisdictional differences and the ongoing IESBA project, many Board members generally expressed the view that PIEs should also be excluded from using the draft standard.

Specific comments were provided with regard to the characteristics used to describe complexity. In particular, the LCE Task Force was encouraged to revise various aspects of the characteristics to more clearly describe non-complexity (or what less complex is), as well as complexity, which may help jurisdictions and auditors in determining whether the standard is appropriate for use or not. It was also noted that some of the descriptions of the characteristics were not necessarily applicable in all cases as differentiators of complexity, and that it should be clarified where there were exceptions.

Although a few Board members expressed concern about audits of group financial statements being excluded from the standard, and acknowledged that an outright exclusion may result in a more limited uptake of the standard, the Board generally reaffirmed the decision from December 2021 to continue to

exclude audits of groups (subject to a robust explanation in the explanatory memorandum to focus stakeholders' attention on this, with relevant questions to invite views to aid the Board's eventual decision).

Comments on the Draft Standard

Notwithstanding the concerns about the applicability of the standard, the Board provided input on matters in context of the expected nature and circumstances of an audit of an LCE.

It was noted that Part 2 relating to Quality Management for an audit had been significantly improved from the previous draft, however it was noted that the objective still had to be aligned with ISA 220 (Revised) and that some of the changes made to ISA 220 (Revised) relating to required behaviors, which were crucial to the changes to make that revised standard more robust, had been omitted.

Board members noted that Parts 2 and 3 were in a confusing order, as audit evidence would precede quality management. It was also noted that Part 3 on Audit Evidence had a number of aspects that may not be directly relevant to audit evidence and should therefore be removed from this Part. It was also highlighted that the Preface should form part of the standard.

The Board expressed mixed views on Part 6 on risk identification and assessment. Some Board members had the view that the requirements were still too extensive and too detailed. Others had the view that the standard had been scaled back too much and encouraged that the LCE Task Force revert to the requirements of ISA 315 (Revised 2019), in particular as they relate to descriptors of the work effort. It was also noted that ISA 315 (Revised 2019) was not yet effective and therefore that caution was needed when making any changes to the requirements. The Board broadly supported the stand-back in Part 6 to reconsider the applicability of the standard, although one Board member noted that the stand-back should be earlier in the standard.

Board members generally supported the approach to Part 8, i.e., including requirements for evaluating and concluding together, but noted that further consideration would need to be given to the order of this Part. Board members also encouraged the LCE Task Force to further consider whether more was needed in Part 9 related to reporting as it was critical that all the necessary requirements had been included as this directed the output of all the auditor's work. It was also highlighted that the illustrative auditor's report should better align with an 'ISA auditor's report', notwithstanding a few Board members supporting the alternative presentation.

With regard to specific observations about the standard, the Board encouraged the LCE Task Force to further consider:

- Including the relevant aspects of the ISAs relating to compliance frameworks (in relation to the applicable financial reporting framework).
- Aligning with the requirement to comply with relevant ethical requirements in the ISAs.
- Whether an audit strategy (in addition to an audit plan) for the audit is needed.
- Whether the standard was robust enough in regard to external confirmations, opening balances, and comparative information.
- How analytical procedures had been addressed, noting that some of the changes may inadvertently change the work effort for analytical procedures performed in risk identification and assessment.
- How audit sampling should address control testing as well as substantive procedures.

- Whether the standard sufficiently addressed non-compliance with laws and regulations.
- Whether a requirement for voluntarily reporting key audit matters (KAM) was needed for LCEs. There were mixed views in this regard. Some Board members had the view that the presence of a voluntarily disclosed KAM, while rare, could be an indicator of complexity and may confuse messaging about the nature and circumstances of an LCE. Other Board members however, had the view that the communication of KAM would be useful and that this may encourage broader use of KAM in the audit environment.
- Whether more was needed with respect to reporting in relation to a going concern material uncertainty, including an illustrative report in an appendix.
- Whether anything more could be done to alleviate the documentation concerns raised by auditors of LCEs.
- How paragraphs had been structured, in particular those where there was more than one “shall” or there were long lists of bullet points.
- How LCE-specific matters could be better highlighted within the draft standard, for example for fraud.

Board Members expressed the need for more examples to assist with effective implementation of the standard once it was finalized, and encouraged the LCE Task Force to further consider the development of supporting guidance, either by the IAASB or others.

PIOB OBSERVER COMMENTS

The PIOB Observer emphasized the need to expose the standard to obtain stakeholder input as soon as possible, highlighting that it was in the public interest to develop and finalize the standard in a timely manner. He also noted that it would be important to obtain the views and perspectives of regulators and audit oversight bodies as part of the outreach plan for obtaining input.

WAY FORWARD

The LCE Task Force will continue to progress and finalize the [draft] ISA for LCE for discussion with the Board at the June 2021 IAASB meeting, and approval as an exposure draft for public consultation.

Appendix 3

Draft Minutes from May 2021 IAASB Meeting – Audits of Less Complex Entities¹³

Introduction

Mr. Seidenstein introduced the session, explaining his approach to the Board's discussion to provide the LCE Task Force with clear direction in order to move forward to the June 2021 IAASB meeting.

Authority (Part A of the [draft] ISA for LCE)

Mr. Hagen walked through **Agenda Item 4-A** highlighting the key changes that had been made, including:

- (a) Making clearer the role of the IAASB, the jurisdiction, firms and practitioners.
- (b) To describe outright restrictions in the standard and the revised approach to public interest entities.
- (c) To better describe the overarching principles contemplated when designing the standard and the characteristics of complexity that are relevant for understanding when the standard is appropriate to be used.

GENERAL COMMENTS

Overall, the Board were supportive of the approach for the proposed “authority” of the standard, noting that there was less subjectivity which is what had been needed. However, it was noted that it was not clear who the authority was aimed at, how the various restrictions and limitations worked together (although it was highlighted that the diagram helped with the understandability of the process) and which parties could make changes and where the changes could be made.

Some Board members also still had the view that there was too much judgment still needed, encouraging that the descriptions in relation to the qualitative characteristics needed to be clearer to limit the judgment needed. It was also highlighted that it was not clear what the role of firms and practitioners are in regard to the authority of the standard.

ENTITIES WITH “PIE CHARACTERISTICS”

There were mixed views about the alignment with the IESBA's proposals¹⁴ for entities with ‘PIE characteristics.’ Some Board members continued to encourage alignment with the IESBA, while other Board members highlighted that the IESBA's proposals had not yet been finalized and that the IAASB should wait to understand the outcome of the consultation by the IESBA on these PIE categories before aligning too closely.

Several Board members strongly encouraged further clarity about the restricted entities and how they could be modified (i.e., clarifying if and when entities with ‘PIE categories’ could be removed, the descriptions changed or the restrictions extended to include other entities).

The Board agreed with the Task Force's view that the exposure of the [draft] ISA for LCE should not be an invitation for participants to provide comments on the IESBA's proposals regarding the definition of PIEs,

¹³ The draft minutes are still subject to review by the IAASB and there may be further changes.

¹⁴ The Definition of Listed Entity and Public Interest Entity Project currently being undertaken by the International Ethics Standards Board for Accountants (IESBA).

highlighting that this should be clear in the Explanatory Memorandum (EM). The Board also agreed that the IAASB and IESBA needed to continue to coordinate as the IESBA progressed its work on the definition of PIEs.

It was also noted that further guidance in the supplement guide was needed to provide context for the entities that were affected.

CONSIDERATIONS AT THE JURISDICTION LEVEL

Some Board members expressed concern over potential misuse or inconsistency where a legislative body or other relevant local body in a particular jurisdiction allows use of the standard “as is” – i.e., with no additional guidance or restrictions. Some members highlighted that this was why providing clear guidance to firms and practitioners was important.

Some Board members suggested that listing what was and was not in the standard would be more straight forward and would alleviate some of the burden at the jurisdictional level.

One Board member highlighted that the IAASB's pronouncements do not override the local laws or regulations that govern auditing and assurance matters, and encouraged that the LCE Task Force give further consideration to not creating issues in the event that local laws or regulations are in conflict with the this standard.

THE JUDGMENT OF COMPLEXITY

It was highlighted that there was still too much subjectivity in the descriptions of the qualitative characteristics of complexity, and that further specificity was needed.

One Board member suggested reconsidering creating quantitative “hard” thresholds at a global level, for example based on employee numbers, that could be rebuttable at the jurisdiction level. Another Board member described difficulties experienced in setting rules and thresholds even at the regional level and cautioned against this, while others agreed that it needed to remain principles based.

It was noted that some of the detail describing the qualitative characteristics of complexity in an audit of an LCE included in the Supplemental Guidance for the Authority of the Standard may be helpful in the Authority, although some members emphasized the need to keep the Part succinct. Board members expressed mixed views on whether the supplement should be part of the standard in order to ensure consistent application and appropriate authority, or remain as support material.

SUPPLEMENTAL GUIDANCE FOR THE AUTHORITY OF THE STANDARD

Consistent with the feedback received on Part A, Board members requested further clarity on how the restrictions could be modified.

It was also encouraged that further consideration be given to making the supplemental guide more succinct and easier to read. In particular, it was noted that Section I was too long, particularly in relation to accounting estimates, and that it was confusing because sometimes the descriptions explained what “is an LCE” and then what “is not an LCE” depending on the qualitative characteristic in question. Concern was also expressed that the section may be used as a ‘checklist.’

Audits of Group Financial Statements

Mr. Hagen walked through the Extract for the Explanatory Memorandum (EM) in **Agenda Item 4-C** explaining that the project to revise ISA 600 had not yet concluded, and therefore impacted various aspects of what was to be included in the EM, including describing what a group audit is.

Board members were supportive of the inclusion of the topic in the EM in order to get input from stakeholders, noting that this would be important to inform the Board about the views on group audits as the standard is finalized. However, concern was raised that respondents may be biased in their choice by the concern that the selection of a particular option may cause further delays to the issuance of the standard.

The Board expressed mixed views about the options as described. While the reason for using component auditors as a proxy for complexity in “Option 2” was acknowledged (considering the nature and proportion of requirements in ISA 600 covering component auditors and the reason one may be used), some Board members felt that it was not the most effective criteria to use as a proxy for complexity. Some Board members instead suggested other “cutoffs,” including where there are multiple jurisdictions, or jurisdictions in multiple countries as an alternative. Other members suggested that there should just be two options: the inclusion or exclusion of group audits, with complexity of the group being addressed at the engagement level. Ms. Bahlmann proposed a potential path forward to obtain the relevant detailed feedback needed on respondent’s views of indicators of complexity that would help inform the Board’s decisions in finalizing the standard after exposure.

Mr. Botha emphasized the need for having as much clarity in the EM as to the effects of the various options possible in order to give a clear direction for a path forward. Mr. Gunn suggested that the EM be clear on the background to why audits of group financial statements were not originally included in the [draft] ISA for LCE, and what the Board’s rationale was for that position.

After discussion over concerns that respondents may be “led” by its presentation and content, it was concluded that Appendix 1 (which provided more about the detailed requirements that would be included for each option) should not be included, but more high-level detail of the impact of each option described.

The Board supported a question about the impact of excluding group audits, but did not agree with the proposed question to determine a quantitative measure of how many audits would be impacted if group audits were excluded. Rather it was suggested to ask respondents for more information about what drives complexity in group audits, and that may help determine the impact of excluding group audits from the [draft] ISA for LCE. One Board member cautioned that open ended questions are harder to respond to, and harder to conclude on a clear path forward, particularly when the effect of different options has not been presented.

Regardless of the options proposed, Board members highlighted the importance of clarity about what a group audit means in the context of responding to the EM (specifically if the term only includes audits of different entities or also could include different components e.g., branches, locations etc.).

PIOB OBSERVER COMMENTS

The PIOB Observer commended the Board on the robust discussions. He reiterated the importance of getting stakeholder input from all relevant stakeholders to ensure that what is in the draft standard will achieve a high audit quality, which would be in the public interest.

WAY FORWARD

The LCE Task Force will continue to finalize the [draft] ISA for LCE for discussion with the Board at the June 2021 IAASB meeting, and approval as an exposure draft or public consultation.

Appendix 4

Summary of Discussions with IFAC SMP Advisory Group

The LCE Task Force Chair provided an update to the IFAC SMP Advisory Group (SMPAG) on the progress of the [draft] ISA for LCE to obtain input relevant to the changes that had been made to the standard since the previous discussion with the SMPAG.

The group were overall very supportive of the progress made in the project and of the quality of the [draft] ISA for LCE provided to them, with many participants indicating that, as currently drafted, they would use the standard. Comments continued to support the overall flow and structure of the [draft] standard, in particular because it followed the natural flow of the audit. The importance of providing a solution for the difficulties faced by practitioners when performing audits of Less Complex Entities (LCEs) was reiterated.

The group continued to share strong concerns in relation to group audits being excluded from the standard, with several participants repeating previous comments that this approach would severely impact the use of the standard.

With regard the options for audits of group financial statements to be presented in the EM (as proposed in the May 2021 IAASB meeting), one participant shared the concern of some Board Members that this may lead to the inappropriate “non-use” of component auditors in order to be able to use the standard. However, the participant did acknowledge that due to the nature of ISA 600, many of the requirements that add complexity in an audit do relate to component auditors (e.g., communication, reporting etc.).

The group were broadly supportive with the revised approach to the Authority of the standard, noting that the roles of the relevant parties were appropriate and agreeing that to the ability of jurisdictions to be able to modify some categories of the restricted entities.

On the topic of maintenance of the standard, participants strongly agreed with providing a stable platform in order to maintain audit quality and consistency. One participant challenged whether it would be really necessary to make an update every three years, unless potential changes were really vital or significant, especially given the higher level, outcome-based nature of the standard. Another participant noted that developing an enduring and stable standard would be significant to their jurisdiction’s decision to allow its use.

A number of participants noted that they do not use negative confirmations as part of their external confirmation procedures to obtain audit evidence.

Participants also commented variously as follows:

- One participant noted that there appeared to be an assumption that practitioners would use both ISAs and ISA for LCEs, when, based on outreach, some smaller firms and practitioners had expressed a preference to only use one for their audits (i.e., so they could only buy and train on one ‘audit software package’ and methodology tools).
- One participant questioned if there was enough material on Fraud within Part 6, *Risk Identification and Assessment*. The Task Force Chair explained how it had been incorporated throughout the standard, rather than including requirements on Fraud all together.
- One participant highlighted the limited procedures in relation to Service Organizations, which can be common for LCEs.

Appendix 5

Summary of Discussions with National Standard Setters

The session with the national standard setters (NSS) was targeted at the Authority of the standard (as revised and presented for the IAASB's May Board call).

The NSS representatives expressed broad support for the approach to the Authority of the standard, and encouraged the IAASB to consider the importance of keeping it easy to use and apply. Participants highlighted that importance of progress to develop a standard for auditing LCEs as it would form an essential part of the 'toolkit' of NSS in supporting auditors within their jurisdictions.

However, concerns were raised from some participants that the approach may lead to possible global divergence if some jurisdictions adopt the standard 'as is' and others added significant local guidance and restrictions. One participant raised concern that the balance may have swung to provide too much responsibility on the jurisdictions and would prefer more specificity about the restrictions in the standard itself. However, participants also recognized the difficulty in designing something appropriate at a global level given differences in jurisdictions.

Participants questioned whether the entities with 'PIE characteristics' was needed to be detailed in the standard as jurisdictions always had the option to exclude these on adoption of the standard. One participant noted that it may be easier to restrict PIEs as defined in that jurisdiction. It was also highlighted that the ability for the jurisdiction to 'modify' the list of entities with PIE characteristics may be confusing (in particular as some aspects of the restrictions could not be modified and some could).

Participants encouraged more clarity on the qualitative characteristics and how these applied, noting that some of the material from the supplement would be useful in the standard. This would assist with better understanding what had been 'scoped in and scoped out' of the standard. It was also highlighted that support material for transitioning between the standards would be important.

A few participants encouraged that listed entities and group audits be incorporated in the [draft] ISA for LCE given the nature of their local jurisdiction.

Appendix 6

Drafting Principles Used in Developing the [Draft] ISA for LCE

The following sets out the broad drafting principles used when developing the [draft] ISA for LCE.¹⁵ The IAASB aims to set high quality international standards that are understandable, clear and capable of consistent application, thereby serving to enhance the quality and uniformity of practice worldwide.

To achieve the aim of the IAASB, the [draft] ISA for LCE has been drafted to be:

- Clear - meaning drafted in an easy to understand and unambiguous way.
- Simple - avoiding unnecessary words and elements and by using plain language.
- Concise - avoiding unnecessary repetition.

This includes:

- Using of short sentences, with clear, concise and simple language appropriate to the subject matter.
- Using terminology consistently.
- Presenting a required action that is clear, understandable, enforceable and is stated as simply and concisely as practical.
- Only including one concept in a paragraph by providing a logical link between the ideas of each sentence.
- Only including one “shall” in a paragraph, unless the second “shall” is conditional on an outcome of the first “shall” in the paragraph (in which case there may be two “shall’s” in a paragraph).
- Not using long or multiple layers of bullet lists where possible, because this may become difficult to read and understand and may be perceived as a checklist rather than a principles-based approach.
- Using simple language.
- Avoid legalistic or archaic terms, nuances, and superfluous adjectives or adverbs.
- Not using words that suggest certainty or absolutes for the auditor (e.g. “ensure”, “guarantee”, “assert”, etc.).
- Not using more words than necessary (e.g., use “The auditor shall obtain evidence for XYZ” instead of “The auditor shall obtain evidence in relation to XYZ”).
- Not including material in the ISA for LCEs that is lengthy, educational or background in nature.

The same structure has been used for each Part, to help with consistency of application. All communication and documentation requirements have been grouped together in separate sections at the end of the relevant Part. Sub-headings have been used where needed to help explain the focus of the requirements. Boxes have been used to help enhance and separately identify the introductory and other non-authoritative material.

¹⁵ These drafting principles are based on the Drafting Principles and Guidelines being developed by the CUSP Working Group.

Other drafting matters of relevance include:

- Use of ‘and’ ‘or’ and ‘including’ in a bulleted list:
 - In a bulleted list ‘and’ means all items need to be taken into account.
 - In a bulleted list ‘or’ means that there could be one or more matters within that list.
- Where a requirement is conditional, the condition is presented first.
- Cross-referencing has been limited and only used where absolutely necessary.
- EEM and introductory boxes have been presented as “non-authoritative” and do not create additional obligations for the auditor.
- EEM has been presented to the extent that it provides essential context for understanding a concept or a requirement. There are no examples on the application of the requirement presented.
- Appendices presented have the same status as the EEM.
- The documentation requirements establish “what” the auditor is required to document. Documentation requirements do not explain “why” the documentation is needed or “how” to apply the documentation requirement.