

Audits of Less Complex Entities – Issues

Objective of the Meeting

To obtain the Board's views on:

- (a) The revised “Authority” of the [draft] International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the “[draft] ISA for LCE”) and the supporting Supplemental Guidance for the Authority of the Standard.
- (b) The extract from the draft Explanatory Memorandum relating to Less Complex Entities (LCE) Audits of Group Financial Statements to enable the LCE Task Force (the Task Force) to continue to develop the explanatory memorandum that will accompany the draft standard when it is published in July 2021.

Board Discussion:

This Agenda Item sets out the matters for consideration relating to:

- (a) The Authority for the [draft] ISA for LCE (**Agenda Item 4-A**) (see **Section I** below) and the Supplemental Guidance for the Authority of the Standard (**Agenda Item 4-B**) (see **Section I** below)
- (b) Extract from the draft explanatory memorandum relating to LCE Audits of Group Financial Statements (**Agenda Item 4-C**) (see **Section II** below).

Authority of the [draft] ISA for LCE

The Task Force Chair will walk-through **Agenda Item 4-A** and will ask for feedback from the Board on the changes made since the March 2021 IAASB meeting. The Task Force Chair will then ask for comments on the Supplemental Guidance for the Authority of the Standard in **Agenda Item 4-B**. It is not intended to discuss detailed comments on the characteristics contained in Section I of the Supplemental Guidance, however detailed comments may be provided to IAASB staff before or after the meeting.

Extract for the Explanatory Memorandum Accompanying the Exposure Draft of the [Draft] ISA for LCE

The second part of the session will be spent on discussion of the extract from the draft Explanatory Memorandum that will accompany the Exposure Draft set out in **Agenda Item 4-C**.

What Have We Done Since We Last Met?

1. The applicability section of the [draft] ISA for LCE, setting out the intended scope and applicability of the draft standard and presented for discussion at the March 2021 IAASB meeting, has been revised to respond to Board comments and is presented in **Agenda Item 4-A**. To support the revised applicability of the [draft] ISA for LCE (now called the “authority”), the Supplemental Guidance on the Authority of the Standard has been developed (see **Agenda Item 4-A**).
2. The Task Force has also developed an “Extract from the EM” on the inclusion or exclusion of audits of group financial statements (see **Agenda Item 4-C**) which sets out the “Matters for Respondent’s

Consideration and Questions” relating to audits of group financial statements (that, as directed by the Board in December 2020, is specifically excluded from the [draft] ISA for LCE).

3. The [draft] ISA for LCE and supporting “Mapping Documents” presented at the March 2021 IAASB meeting are currently being revised and will be presented for discussion at the June 2021 IAASB Meeting. The Task Force is of the strong view that public consultation on the [draft] ISA for LCE should commence in the second half of 2021.
4. **Appendix 1** of this paper sets out the members of the LCE Working Group as well as its activities. **Appendix 2** sets out the relevant extract from the draft minutes from the March 2021 IAASB discussions.

I. Authority of the Draft ISA for LCE

Background

5. The [draft] ISA for LCE has been developed to be proportionate to the nature and circumstances of the audit of an LCE (i.e., the standard contains the requirements and procedures which are commensurate with what, in the view of the Task Force, would be an audit of a typical LCE). The draft standard does not address complex matters and circumstances, and it is therefore not appropriate to use the standard for audits that are not considered audits of less complex entities. If the [draft] ISA for LCE is used inappropriately, it may result in an audit that may not be sufficient or appropriate given the nature and circumstances of the entity because the auditor may be missing the necessary requirements to conclude that reasonable assurance has been obtained.
6. The decision to permit use of the standard rests with individual jurisdictions (such as regulators, oversight bodies, national standard setters (NSS), professional accountancy bodies (PAOs) or others (as relevant)). This responsibility, and how the decision to determine the standard is suitable, is explained in the Authority of the [draft] ISA for LCE (Part A) (in the March 2021 IAASB draft this was presented as part of the “applicability of the standard”).
7. Although a description of the individual jurisdiction’s responsibility in deciding about the adoption of the standard was included in the March draft of the ISA for LCE, the Board had concerns that it was not sufficiently clear. In making revisions to the Authority, the Task Force has focused on emphasizing the role of the individual jurisdictions. It is important that a clear and understandable (and as succinct as possible) description of use of the standard is provided by the relevant body for each jurisdiction, which will promote a more consistent use of the [draft] ISA for LCE in that jurisdiction.
8. A clear and understandable description of the restrictions and characteristics for which the standard is appropriate may also help firms as they set policies or procedures for the use of the [draft] ISA for LCE, and be used for individual engagements when determining whether the standard is appropriate to that engagement.
9. The applicability of the [draft] ISA for LCE presented at the March 2021 IAASB meeting restricted the use of the standard for certain types of entities, and then included matters where further judgment was needed to determine whether the standard would be appropriate for use. Significant concerns were raised by the IAASB on the approach to applicability, in particular in relation to the judgment that would be required. It was also noted that it was not clear who was responsible for making the judgments (i.e., the auditor or legislative authorities or relevant local bodies).

10. In the March 2021 [draft] ISA for LCE, the Task Force limited the exclusion for using the standard to where:
 - (a) Laws or regulations restrict or prohibit the use of the [draft] ISA for LCE.
 - (b) The entity is a listed entity.
 - (c) The audit is an audit of group financial statements.
 - (d) The audit is judged not to be an audit of a less complex entity (LCE) (this was the judgment category, which was further explained in the applicability Part).
8. The Task Force limited the exclusion for using the standard to listed entities but did not extend the exclusion to other public interest entities (PIEs) because excluding PIEs more broadly may inadvertently scope out some entities that would ordinarily be able to use the standard. This message had been reinforced by relevant stakeholders in outreach on the [draft] ISA for LCE, as well as by the LCE Reference Group (who have contributed views over the course of development of the standard). The Board broadly supported excluding specific categories of entities from using the standard, but there was a strong call for considering expanding the exclusions to include PIEs, in particular in light of the Definition of Listed Entity and Public Interest Entity Project currently being undertaken by the International Ethics Standards Board for Accountants (IESBA).
9. In the draft presented at the March 2021 IAASB meeting, there was also a significant focus on the judgment needed in determining whether the standard is appropriate or not to use. The Task Force described the characteristics of an audit of an LCE in categories to help with that judgment, including relating to the entity's:
 - (a) Business activities and governance structure.
 - (b) Information system (consisting of IT systems, people involved and the processing of information).
 - (c) "Basic accounting estimates."

Each category further described what could make an entity more or less complex to help auditors (and others) understand what constituted an LCE for the purpose of the standard, and included examples where necessary (for example, with regard to basic accounting estimates, an appendix was also provided to illustrate examples of typical basic accounting estimates in the audit of an LCE). Board members strongly encouraged the Task Force to further reconsider this approach, because notwithstanding that there was a description of the characteristics there would still be a significant amount of judgment needed and therefore it was not clear for which audits the standard would be able to be used. It was also highlighted that the description of the categories could lead to inconsistency in how they were applied, which also created the risk for inappropriate use of the standard.

10. The Board also expressed concern that it was not clear *who* the intended user is for the applicability section.

Changes Made to the Authority of the Draft ISA for LCE Since March 2021

11. Based on feedback received at the March 2021 IAASB Meeting, the Task Force has significantly revised the approach to the “applicability” of the standard. Broad changes include:
- (a) To describe the Part of the standard that sets out the intended scope as the “Authority” of the standard. This is to reinforce the role of the IAASB as the standard-setter and reinforces that the IAASB is not responsible for adoption or use of its standards in individual jurisdictions. The use of the term “applicability” may suggest that the IAASB can decide who uses the standard globally.
 - (b) To focus, in the first instance, on the role of regulators or oversight bodies, national standard-setters, professional accountancy organizations, or others (as relevant) to determine whether the standard is appropriate for use in individual jurisdictions, and to set out, at the jurisdictional level, the specific scope (including, for example, any size threshold). The role of these legislative authorities or relevant local bodies in setting the appropriate scope for the standard in their particular jurisdiction has been clarified upfront.
 - (c) To set out the overarching principles that have been contemplated as the standard has been developed as context for the restrictions and the other relevant characteristics that limit the use of the standard.
 - (d) Better explaining the role of firms and engagement teams in the decisions made to use the standard on individual engagements. This has mainly been addressed in the Supplemental Guidance for the Authority of the Standard as the “authority” Part of the standard is focused on the role of the legislative authorities or relevant local bodies.
 - (e) Being more clear and succinct in the Authority as to when the standard is appropriate or not for an audit of an LCE, to assist in the decision making in relation to adoption and use of the standard. The Supplemental Guidance for the Authority of the Standard provides further explanations about the restrictions and other relevant characteristics that limit the use of the standard.
 - (f) Specifically excluding entities that would likely have the characteristics of PIEs (subject to jurisdictional determination with regard to PIEs), but excluding listed entities which are separately excluded in the Authority.
 - (g) Providing guidance to assist in understanding what is meant by the restrictions or characteristics in the Authority for appropriate use of the standard (i.e., describing matters or circumstances for which the standard has or has not been designed to address (or describing what has not been included in the content of the standard)). This guidance has been presented in a separate supplement which will accompany the [draft] ISA for LCE (see **Agenda Item 4-A**). It is intended that this guidance is directed at legislative authorities or relevant local bodies, as well as firms and auditors on individual engagements (the Authority in Part A of the [draft] ISA for LCE is directed at legislative authorities or relevant local bodies).

Focusing on the Role of Legislative Authorities or Relevant Local Bodies in Individual Jurisdictions

12. The Authority of the [draft] ISA for LCE is aimed at legislative authorities or relevant local bodies who are responsible for the adoption of auditing standards in individual jurisdictions. To better describe

the role of these bodies in each jurisdiction revisions have been made to reinforce their responsibility to further refine the categories and criteria for use as appropriate for that individual jurisdiction.

13. There is clarification on the ability for jurisdictions to address any particular circumstances of their local audit environment by allowing changes to the list of restricted entities (with the exception of those prohibited by laws or regulations, listed entities and audits of group financial statements).¹ In making the decision to allow specific entities to be able to use the standard when they would otherwise be restricted, local bodies would take into account the matters set out in the Authority and the Supplemental Guidance for the Authority of the Standard, which describes the intended types of entities the standard was designed for, and their local facts and circumstances. It should be noted that this decision-making authority for allowing specific entities to use the standard would only apply at the jurisdictional level and would not be available to an individual firm or auditors for a particular engagement. It is intended that a specific question will be included in the explanatory memorandum for feedback on this approach.
14. The role of each participant is explained in the Supplemental Guidance for the Authority of the Standard. A summary is provided below:

Role of [draft] ISA for LCE	<p>Sets out restrictions and describes characteristics for when the [draft] ISA for LCE shall <u>not</u> be used for an audit of an LCE (as deemed appropriate for global application).</p> <p>Provides information on the intended content of the [draft] ISA for LCE in supplemental guidance.</p>
Role of Legislative Authorities or other Relevant Local Bodies	<p>Further refine restrictions or characteristics for adoption and use of the [draft] ISA for LCE as appropriate for the individual jurisdiction (having regard to the intended types of entities that this standard is appropriate for and characteristics of less complex matters and circumstances).</p> <p>Adoption and use would be determined based on the content of the [draft] ISA for LCE and guidance provided in the supplement.</p>
Role of Firms	<p>May further restrict the use of the [draft] ISA for LCE based on the guidance in the supplement and the firm’s own quality management policies or procedures. Judgments about applicability of the standard for audit engagements undertaken by the firm cannot override or conflict with restrictions established in the [draft] ISA for LCE or within that individual jurisdiction.</p>
Role of Auditor (at the engagement level)	<p>Where use of the [draft] ISA for LCE is permitted based on the above, engagement teams would be required to evaluate whether the use of standard would be appropriate for that individual engagement.</p>

¹ If changes were made to allow these categories of entities to use the [draft] ISA for LCE, the relevant requirements for listed entities or audits of group financial statements would need to be added to the [draft] ISA for LCE. They are therefore outright excluded.

Expanding the Categories of Entities Excluded from Using the Standard

15. With regard to the categories of entities specifically excluded from using the standard, the Task Force is of the view that to specifically exclude all PIE's is not preferable because (currently) there is not uniform global agreement on the definition of PIEs and therefore many relevant stakeholders have expressed a preference to not extend the restriction to all PIE's. However, to recognize the comments that have been made by the Board with regard to excluding PIEs, further consideration has been given as to how to incorporate those entities that would typically be classified as PIEs.
16. Notwithstanding that the IAASB has not yet explored the consequences to its standards from the work being undertaken by the IESBA, it is suggested that the IAASB leverage the work done by the IESBA on its project on Public Interest Entities for the purpose of finalizing the draft for exposure. As the IESBA's project is progressed and the outcomes further considered by the IAASB, any proposals in relation to the [draft] ISA for LCE would need to be revisited at a later time. Therefore, to align with the IESBA's proposals and for the purpose of the consultation of the draft standard later in 2021, it is proposed to also exclude following categories of entities:²
- (a) An entity whose main function is to take deposits from the public;
 - (b) An entity whose main function is to provide insurance to the public;
 - (c) An entity whose function is to provide post-employment benefits;
 - (d) An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public; or
 - (e) An entity is specified as a public interest entity by law or regulation.³
- By including these entities in the restricted list it would achieve the same outcome as excluding PIEs outright, and may be more tolerable for those not wanting all PIEs to be excluded.
17. In making this change it is intended that legislative authorities or local relevant bodies can adapt the use of these categories as appropriate to their jurisdiction's circumstances (see paragraph 13 above). This ability for individual jurisdictions to make changes to this list may also help those not wanting PIEs excluded outright, and any concerns about what is and isn't designated as a PIE in an individual jurisdiction can be appropriately dealt with by legislative authorities or relevant local bodies in that jurisdiction.
18. A change has not been made to the current exclusion of listed entities (i.e., change to the IESBA's proposal of 'publicly traded entity') as the term 'listed entity' is used (and defined) in the IAASB's literature. If changes are made more generally to the IAASB's standards to more closely align to the IESBA's proposals, a corresponding change will be made in the [draft] ISA for LCE.

² This list of entities is consistent with the IESBA's exposure draft on the Definitions of Listed Entity and PIE (see footnote 4 relating to 'publicly traded entities' as included in the IESBA proposals). It is intended that any requirements around determining what PIEs are in an individual jurisdiction under relevant ethical requirements could be replicated for the purpose of adopting the [draft] ISA for LCE, or further changes could be made that are appropriate to the audit environment for that jurisdiction.

³ The IAASB's equivalent of publicly traded entities (which is included in the IESBA's exposure draft) is listed entities and these have been specifically excluded, with no ability to include them in the use of the standard. The IAASB will still further consider whether to change its term to fully align with the IESBA term.

When the Standard is Not Appropriate to Use because the Entity Exhibits Complexity

19. In order to assist legislative authorities or relevant local bodies in understanding the content of the standard for the purpose of adoption and implementation of the [draft] ISA for LCE, the Task Force has developed Supplemental Guidance for the Authority of the Standard. It includes further details on the intended scope of the [draft] ISA for LCE, and may assist in their decision-making to refine for which type of audits the [draft] ISA for LCE may be used. This guidance also explains that legislative authorities or relevant local bodies also have the ability to use other criteria for use of the standard such as size limits (e.g., number of employees, a value of assets or revenue, etc.).
20. Descriptions (including examples) of characteristics that may be relevant in making judgments about whether an audit of financial statements of an entity falls within the applicability of the [draft] ISA for LCE (either at the jurisdiction level, firm level or for individual engagements) are included in the Supplemental Guidance for the Authority of the Standard. These characteristics have been revised from the [draft] ISA for LCE presented for discussion at the March 2021 IAASB meeting, based on feedback from the Board. The characteristics that may exhibit complexity now fall into the following broad categories:
 - (a) Organizational, ownership or oversight structures.
 - (b) Regulation or regulatory oversight.
 - (c) Nature of transaction and information processing.
 - (d) IT environment and IT systems.
 - (e) Accounting estimates.
21. In making the relevant changes and in developing the guidance, the Task Force has clarified how these characteristics may indicate whether an audit is, or is not, an audit of an LCE. The characteristics are also help to explain what has been contemplated in the design of the standard, and therefore are indicators of or proxies for matters or circumstances which the standard has or has not been designed to address.
22. The diagram below explains the role of stakeholders in relation to the [draft] ISA for LCE:



Matters for Board Consideration

1. The Board is asked for views on:
 - (a) The revised Authority of the [draft] ISA for LCE as set out in **Agenda Item 4-A**.
 - (b) The Supplemental Guidance for the Authority of the Standard as set out in the **Agenda Item 4-B**.
 - (c) Whether there are any other matters relevant to the authority or scope of the standard that the Task Force should consider as the [draft] ISA for LCE is progressed for discussion at the IAASB meeting in June 2021?

II. Audits of Group Financial Statements

Background

23. At its December 2020 meeting, the IAASB agreed, on balance, that the [draft] ISA for LCE should not include audits of group financial statements.
24. In its deliberations, the Board had mixed views whether audits of group financial statements should be included in the scope of the [draft] ISA for LCE. There were also mixed views on what should be included in the [draft] ISA for LCE should audits of group financial statements be scoped in. Broadly, the Board noted the following:
 - Considering that ISA 600⁴ provides for special considerations for audits of group financial statements, in addition to the requirements and guidance in the other ISAs, the inclusion of audits of group financial statements in the [draft] ISA for LCE would unavoidably introduce complexity to the standard, which is not aligned with its intended purpose.
 - In some jurisdictions, there may be a higher number of groups that may be considered as less-complex and could therefore use the standard appropriately. However, the IAASB does not have sufficient information to determine the number of groups and entities that would be affected globally if audits of group financial statements are scoped out from using the standard.
 - Many factors, in addition to the use of component auditors, need to be considered in making judgments about complexity of a group audit engagement and therefore, having a bright line that determines when a group is considered to be less complex may not be a straightforward process. Further consideration will be required to determine the requirements to be added to the [draft] ISA for LCE if audits of group financial statements are scoped into the standard.
25. In recent outreach undertaken on the [draft] ISA for LCE (using a draft of the standard that specifically excludes audits of group financial statements), stakeholders expressed strong views that an audit of an entity or group could be considered less complex for the purpose of the [draft] ISA for LCE even if the audit is an audit of group financial statements. Some stakeholders also expressed strong views that should audits of group financial statements be excluded from the scope of the ISA of LCE, this could result in groups and entities being inadvertently scoped out of using the standard, although they would meet the other criteria to be considered 'less complex.'

⁴ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

26. Jurisdictions that have developed their own national standards for audits of LCE, have undertaken various approaches with respect of audits of group financial statements. Some jurisdictions (e.g., France) have already implemented an approach whereby for certain audits of group financial statements, which are considered to be ‘less complex’ by the nationally established criteria,⁵ the jurisdictional standard for audits of LCEs would apply. Others (e.g., Sri Lanka) have decided on an approach to exclude audits of group financial statements from the scope of their national standard for audits of less-complex entities.
27. In other jurisdictions, where the national standards for audits of LCEs are still under development, consideration is being given to the inclusion of audits of group financial statements in the scope of those standards. For example:
- The Indian Exposure Draft: Standard for Audit of Smaller and Less Complex Entities (SA-SLCE), although not aligned with ISA 600, includes requirements when the principal auditor uses the work of another auditor.
 - In Germany, following the development of their first iteration of their national standard for audits of less complex entities, there will be a further consideration to develop variations of that standard to cover matters for LCE audits, including for audits of group financial statements.
28. Notwithstanding that the Board agreed not to include audits of group financial statements in the scope of the [draft] ISA for LCE, the IAASB encouraged that the Task Force seek further stakeholder views on this in the explanatory memorandum accompanying the exposure of the [draft] ISA for LCE. Therefore, the [draft] ISA for LCE will be exposed excluding audits of group financial statements from the scope, and the explanatory memorandum accompanying the exposure draft of the standard will include relevant questions for respondents about whether audits of group financial statements should be scoped in, or not, and if so, how this should be presented within the standard. The extract relating to the explanatory memorandum for matters related to audits of group financial statements has been presented in **Agenda Item 4-C**.
29. To support respondents in answering the questions, three options have been set out in the explanatory memorandum:
- (a) To continue to exclude audits of group financial statements from the scope of the [draft] ISA for LCE.
 - (b) To include audits of group financial statements that involve no component auditors.
 - (c) To include audits of group financial statements that involve component auditors.

Objective and Approach to the Extract from the Explanatory Memorandum

30. Sections II and III of **Agenda Item 4-C** describe the possible impacts to the [draft] ISA for LCE if requirements pertaining to audits of group financial statements are incorporated in the scope of the standard and include:

⁵ For example, the French audit standard NEP 912 for smaller/less-complex entities, also applies for smaller/less-complex groups provided certain size and other criteria are met.

- The options considered by the Task Force for including audits of group financial statements. The possible impact to the [draft] ISA for LCE in relation to the applicability as well as the requirements for each option is also set out (see **Section II** of Agenda Item 4-C).
- Discussion about how the requirements relevant to audits of group financial statements could be presented in the [draft] ISA for LCE should the decision be made to include them in the scope of the standard (see **Section III** of Agenda Item 4-C)

The intended questions for respondents to the consultation are also set out in the relevant sections.

31. The possible changes to the [draft] ISA for LCE if audits of group financial statements are scoped in have been presented at a higher level, but with further detail in the Appendix to help the respondents understand the impact of the two options. In determining the possible changes to the [draft] ISA for LCE, the text of Exposure Draft (ED-600): Proposed ISA 600 (Revised)⁶ has been used. The revisions to ED-600 have not been finalized and will continue to change during 2021, therefore the Task Force believed that using the ED was most appropriate. The project to revise ISA 600 will be complete in December 2021, which is before the ISA for LCE will be finalized. Changes from what is described in the explanatory memorandum as the possible impact on the [draft] ISA for LCE may be needed arising from amendments made to ED-600 in finalizing that standard.
32. The explanatory memorandum for this project will not address whether the [draft] ISA for LCE could be used by a component auditor performing work on an entity or business unit that is part of a group. The Group Audits Task Force is discussing the use of audit evidence from an audit performed for statutory, regulatory or other reasons. The LCE Task Force will continue to coordinate with the Group Audits Task Force to determine what, if any, impact there may be on the [draft] ISA for LCE and changes (if needed) will be made accordingly.
33. The Task Force deliberated whether any other options for inclusion of audits of group financial statements should be considered (for example, an option not based on the ISA requirements related to audits of group financial statements), but agreed to continue with the approach to how the [draft] ISA for LCE has been developed to date (i.e., include requirements in the [draft] LCE based on the relevant ISAs that are proportionate and appropriate to the circumstances of an LCE).

Matters for Task Force [Board] Consideration:

1. The Board is asked for its views on the Extract for the Explanatory Memorandum set out in **Agenda Item 4-C**. In particular, the Board is asked:
 - (a) For views on the options set out in **Agenda Item 4-C**.
 - (b) Whether sufficient information has been provided to help respondents answer the questions.
 - (c) Whether the questions are appropriate, and whether any other information is needed to help inform the Board for the post-exposure period.

⁶ Exposure Draft: Proposed International Standard on Auditing 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) and Proposed Conforming and Consequential Amendments to Other ISAs*

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
 - 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 December 2020 IAASB Meeting (Virtual)

3. The Task Force held four virtual meetings (4 videoconferences). Owing to the nature of the activities being undertaken, work was also progressed via electronic circulation of materials between members of the Task Force and IAASB staff.

Appendix 2

Extract from the Draft Minutes of the March 2021 IAASB Meeting – Audits of Less Complex Entities⁷

Introduction

Mr. Seidenstein introduced the session and highlighted that the Task Force had been working towards approving the draft standard for exposure at the June Board meeting. He recognized that further work was still needed on the draft standard and encouraged the Board to carefully balance the desire to continue refining the draft standard through additional discussions 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 CAG, PIOB and SMPAG on the urgency of getting an exposure draft out for public consultation, noting 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 in the draft standard. CAG Representatives also encouraged that further consideration be given to excluding PIE's from the applicability of the standard.

General Comments

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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.

⁷ These draft minutes will still be reviewed by the IAASB and may therefore change. This extract only includes minutes related to the discussion of the applicability of the [draft] ISA for LCE at the March 2021 IAASB meeting.

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).

...