Audits of Less Complex Entities: ISA for LCE

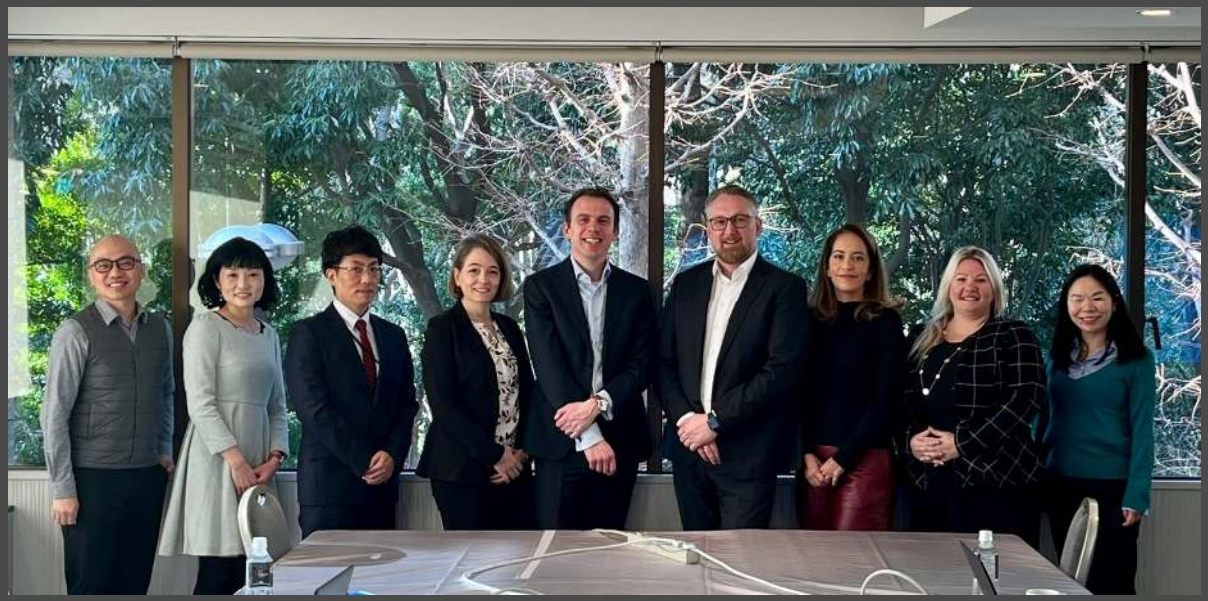
Presented by
Kai Morten Hagen, LCE Task Force Chair
Jasper van den Hout, IAASB Director
Amy Fairchild, IAASB Principal

IAASB Meeting
March 23, 2023
Agenda Item 6



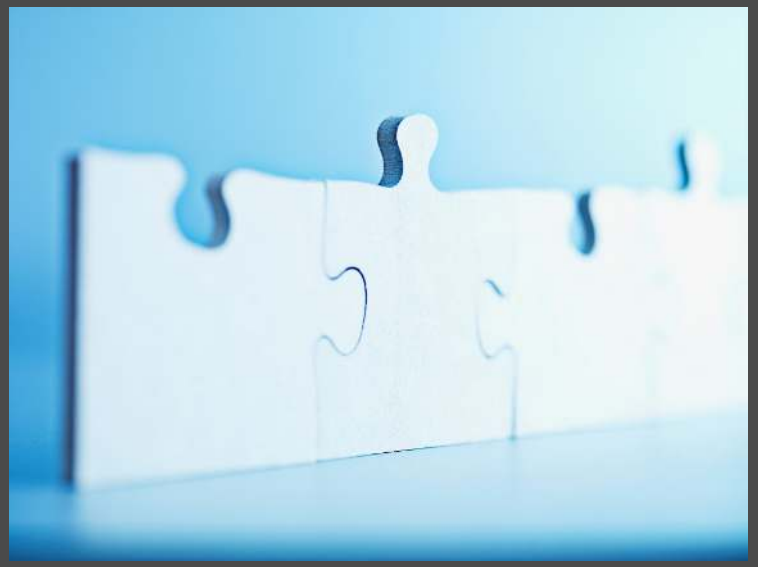
Task Force & Staff Activities

- Release of Exposure Draft (Proposed Part 10)
- Task Force Meetings
- LCE Reference Group
- CAG Meeting
- IFAC SMPAG



Overarching Principles to Proposed Revisions

- Targeted areas identified by respondents:
  - *Relevance*
  - *Proportionate*
  - *Outcome*
  - *Essential Explanatory Material (EEM)*



Part 2, *Audit Evidence & Documentation*

Feedback: Documentation of an audit performed under ED would not be proportionate to an audit of an LCE



Proposed revisions

- Revisions of requirements throughout proposed standard for proportionality and granularity
- Additional EEM to address application of general documentation principles
- Revisions to specific documentation requirements for duplication, location and relevance

Matters for IAASB Consideration

Part 2 and Specific Documentation Requirements

1. The Board is asked for their views on
   (a) The Task Forces proposed approach to addressing respondents' comments relating to documentation
   (b) The proposed changes to Part 2 and specific documentation requirements in other parts, as presented in **Agenda Item 6-B**

Part 3, *Engagement Quality Management*

Feedback: Requirements could be more proportional for audits of LCEs, including engagements carried out by only one person



Proposed revisions

- Structure: separate requirements when there is more than one member of engagement team
- Deletion of repetitive requirements and EEM
- Other revisions and simplification of structure

Matters for IAASB Consideration

Part 3

2. The Board is asked for their views on proposed revisions to Part 3 as presented in Agenda Item 6-B

Part 4, *Client Acceptance/Continuance, Initial Audit Engagements*

Feedback: General support with requests for more EEM and comments on the content of engagement letter or other written agreement



Proposed revisions

- Removal of requirement for the engagement letter or written agreement to specify that audit is being undertaken using the ISA for LCE
- Additional EEM, including for initial audit engagements

Matters for IAASB Consideration

Part 4

3. The Board is asked for their views on the changes made to Part 4 as presented in Agenda Item 6-B

Part 5, *Planning*

Feedback: General support with requests for more EEM and suggestions for relocation of some requirements



Proposed revisions

- Additional EEM, including for using the work of management's expert and materiality
- Documentation requirement for calculation of value under which misstatements would be clearly trivial
- Going concern requirements relocated to Part 6

Matters for IAASB Consideration

Part 5

4. The Board is asked for their views on the changes made to Part 5 as presented in Agenda Item 6-B

Part 6 – *Risk Identification & Assessment*

Consideration of Board comments received during December 2022 meeting



Proposed revisions

- Presumption of fraud risk relating to revenue recognition
- Work effort in 6.3.12A – "evaluate"

  Clarified requirement for understanding entity's process to prepare financial statements (6.3.9)
- Clarified requirements for understanding of services provided by a service organization
- Combined determining RAs and SCOTABDs into 6.4.1

Matters for IAASB Consideration

Part 6

5. The Board is asked for their views on the changes made to Part 6 as presented in Agenda Item 6-B

Accounting Estimates: Previous Discussions

Feedback (Authority): Allow the use of the ISA for LCE when entity has small number of “more complex” accounting estimates



September Discussion

- Revision of qualitative characteristic in Authority
- Further guidance in Supplemental Guide
- Action to review requirements given changes to Authority

Accounting Estimates: Proposed Revisions to Content

Feedback: Reduce the complexity of the requirements (based on Authority per ED). Other suggested revisions to specific requirements/EEM.



Proposed revisions

- Reviewed ISA 540 (Revised) to identify areas where further requirements and EEM are needed given changes to Authority
- Aligned structure with ISA 540 to be clearer on testing approaches
- Requirement for disclosures relating to an accounting estimate
- Enhanced EEM to support requirements

Matters for IAASB Consideration

Accounting Estimates

6. The Board is asked for their views on proposed revisions to Part 7 relating to accounting estimates as presented in Agenda Item 6-B

ISA-800 Series

Feedback: Support for inclusion of the ISA 800-series' requirements. Mixed views on timing and suggestions for further outreach to determines the use of ISA 800 series by LCEs



Task Force recommendation

- Further outreach after approval of ISA for LCE to determine use of ISA 800-Series by LCEs particularly given revision to Authority after ED
- Do not develop separate part for ISA 800-series at this time
- Address how ISA for LCE and ISA-800 series may interact

Matters for IAASB Consideration

ISA 800-Series

6. The Board is asked if they agree with the Task Force's recommendations on the way forward with respect to the ISA 800-series, including not to develop a part containing requirements for the ISA 800-series at this time

Way Forward



Exposure Period for Group Audits Ends

May 2023

Expected Approval of Standard

December 2023

June and September 2023

Further Discussions with Board

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