

Audits of Less Complex Entities: ISA for LCE

Kai Morten Hagen, Task Force Chair
IAASB CAG September 2023 Meeting
Agenda Item C.1



Agenda Item G.1

The ISA for LCE Journey



What Have We Done Since We Last Met?

March – August 2023

Task Force discussed

- Revisions to the proposed ISA for LCE based on comments from the IAASB, IAASB CAG, Outreach and responses to the Exposure Drafts
- Effective date, maintenance of the standard and adoption and implementation

June 2023 IAASB Meeting

IAASB discussion on

- Preface and Authority
- Revisions to Parts 1 to 9

July 2023 IAASB Meeting

IAASB discussion on Part 10, *Audits of Group Financial Statements*

- Discussed comments received on exposure and updated drafting

Group Audits Exposure Draft

Comment period closed April 2023

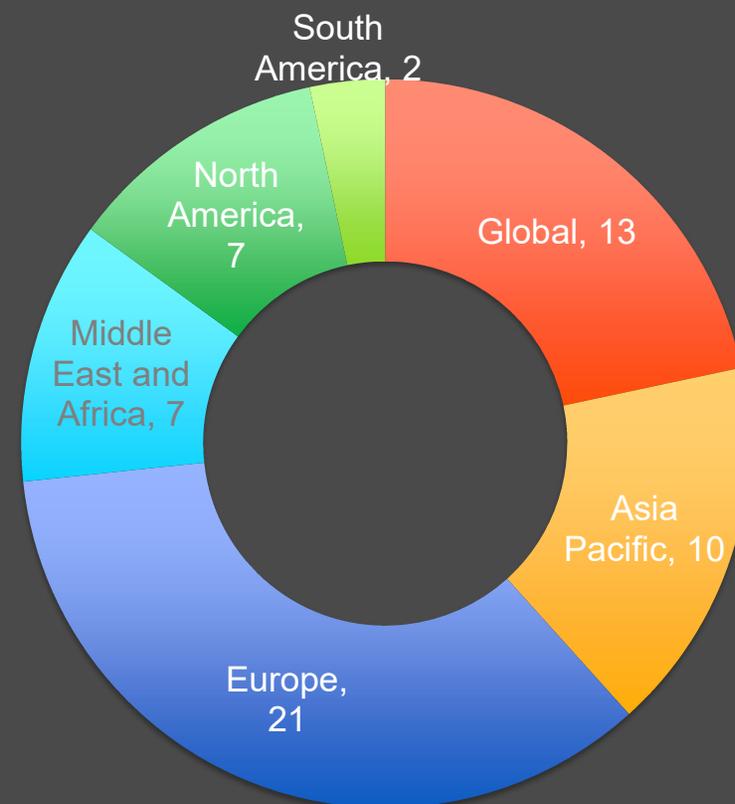
60 Comment Letters

Task Force analyzed comments

- Prohibition relating to Component Auditors
- Group-specific Qualitative Characteristics
- Content of Part 10 and Conforming Amendments

Comment Letters Group Audit Exposure Draft

Stakeholder Type	No.
Regulators and Audit Oversight Authorities	5
National Auditing Standard Setters	11
Accounting Firms	13
Public Sector Organizations	2
Member Bodies and Other Professional Organizations	28
Individuals and Others	1
Total	60



Preface and Authority: Changes Since March 2023 CAG Meeting

Proposed revisions to the Preface

ISA 800 Series

ISAs as source of guidance



Proposed revisions to the Authority

- Alignment with IESBA Code
- Reports on Service Organization controls
- Matters related to Audits of Group Financial Statements
 - Qualitative characteristics
 - Prohibition use component auditors

Prohibition related to the use of component auditors

Mixed views received from comments letters to the ED-Part 10

Supporting the proposed prohibition

As described in the ED

- Agreed that generally not typical for LCE - exemption is appropriate

Expand exemption

- Provided other examples where component auditors are used in LCEs

Narrow exemption

- Exemption may be used too widely

Disagree with the proposed prohibition

- Not a proxy for complexity
- Not focused on complexity of the entity
- Limit adoption
- Adds complexity to decision-making

Requests for Clarifications or Guidance

- Define component auditors
- Examples or guidance on what situations

Proposed way forward: Not to change the prohibition and provide additional guidance in the proposed standard and supplemental guidance

Matters for IAASB CAG Consideration

Preface and Authority

- 1a) The Representatives are asked for their views on the proposed revisions to the Preface and Authority

Parts 1-6: Changes Since March 2023 CAG Meeting

Throughout the standard	<ul style="list-style-type: none">Enhanced scalability by having separate procedures when there is more than one person on the engagement team
Part 1, <i>Fundamental Concepts, General Principles and Overarching Requirements</i>	<ul style="list-style-type: none">Clarification relating to Firm Level Quality ManagementCommunication requirement and EEM on relevant ethical requirements
Part 2, <i>Audit Evidence and Documentation</i>	<ul style="list-style-type: none">Additional EEM to help apply general documentation requirements
Part 3, <i>Engagement Quality Management</i>	<ul style="list-style-type: none">Revisions to clarify engagement partner's responsibilitiesAdded requirement for the engagement partner to have an understanding of relevant ethical requirements

Parts 1-6: Changes Since March 2023 CAG Meeting

<i>Part 4, Acceptance and Continuance and Initial Audit Engagements</i>	<ul style="list-style-type: none">• Reversed previously proposed change to engagement letter: use of ISA for LCE should be included
<i>Part 5, Planning</i>	<ul style="list-style-type: none">• Enhanced EEM for materiality• Enhanced specific documentation requirements
<i>Part 6, Risk Identification and Assessment</i>	<ul style="list-style-type: none">• Requirements and additional EEM related to<ul style="list-style-type: none">○ The process to prepare financial statements○ Understanding the services provided by a service organization

Matters for IAASB CAG Consideration

Part 1 – Part 6

- 1b) The Representatives are asked for their views on the proposed revisions to Parts 1–6

Parts 7-10: Changes Since March 2023 CAG Meeting

<i>Part 7, Responding to Assessed Risks of Material Misstatement</i>	<ul style="list-style-type: none">• Added requirements and EEM for the standard to be able to be applied as a standalone standard.<ul style="list-style-type: none">○ Audit sampling (designing a sample, determining sample sizes, selecting items for testing and evaluating the results)• Re-ordered some requirements and EEM to enhance flow and better align with the ISAs
<i>Part 8, Concluding</i>	<ul style="list-style-type: none">• Added requirements related to subsequent events• Enhanced requirements related to written representations
<i>Part 9, Forming an Opinion and Reporting</i>	<ul style="list-style-type: none">• Clarifications for specified format and content of Auditor's Report• Added requirements on modifications to auditor's opinion and to address proposed revisions to other parts
<i>Part 10, Audits of Group Financial Statements</i>	<ul style="list-style-type: none">• Revisions for stronger alignment with other Parts of the ISA for LCE

Matters for IAASB CAG Consideration

Part 7 – Part 10

- 1c) The Representatives are asked for their views on the proposed revisions to Parts 7–10

Other Matters



Appendices



Conforming Amendments



Effective Date



Maintenance



Adoption and Implementation

Adoption

- Adoption plan
- Actions
 - ✓ Outreach
 - ✓ Liaison with IFAC, NSSs and PAOs
 - ✓ Develop materials

Implementation

- Fact sheet
- First time implementation guide
- Supplemental Guide on Authority and Reporting
- Webinars



Matters for IAASB CAG Consideration

Adoption and Implementation

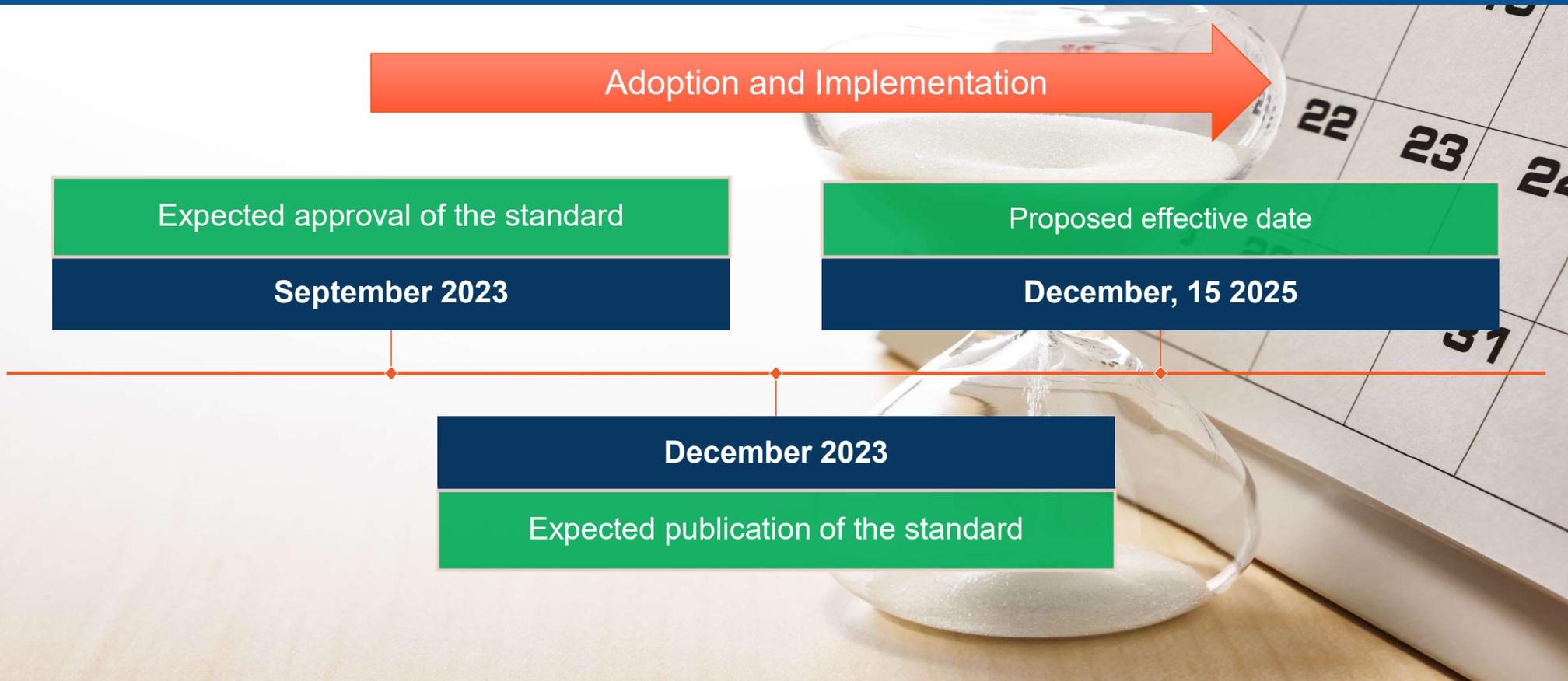
2. The Representatives are asked for their views on
 - a) The effective date of the ISA for LCE
 - b) The maintenance of the ISA for LCE
 - c) The IAASB's plan on adoption and implementation

Matters for IAASB CAG Consideration

Other Matters

3. The Representatives are asked whether there are any other matters that the LCE Task Force should consider as it finalizes proposed ISA for LCE

Way Forward



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