

# 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

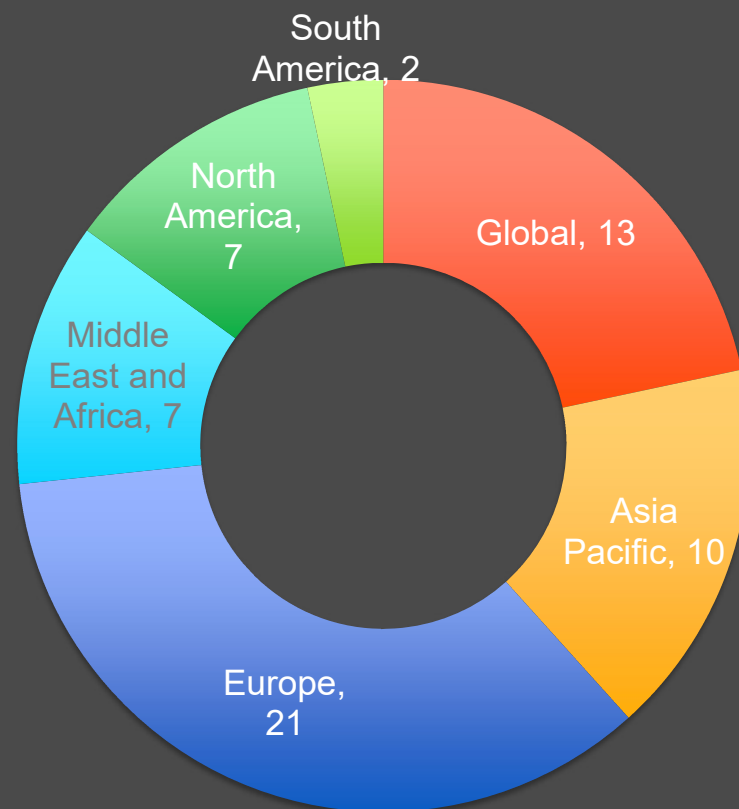
60 Comment Letters

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
<b>Total</b>	<b>60</b>



## Proportionate Revisions to Standard



## Developing Proportionate Requirements

## Approach to Final Revisions

- Targeted revisions to ensure consistency throughout the standard
- Evaluation if requirements are relevant and proportional to a typical LCE
- Additional EEM where appropriate



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

## Parts 1-6: Changes Since March 2023 CAG Meeting

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

## 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

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

## 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

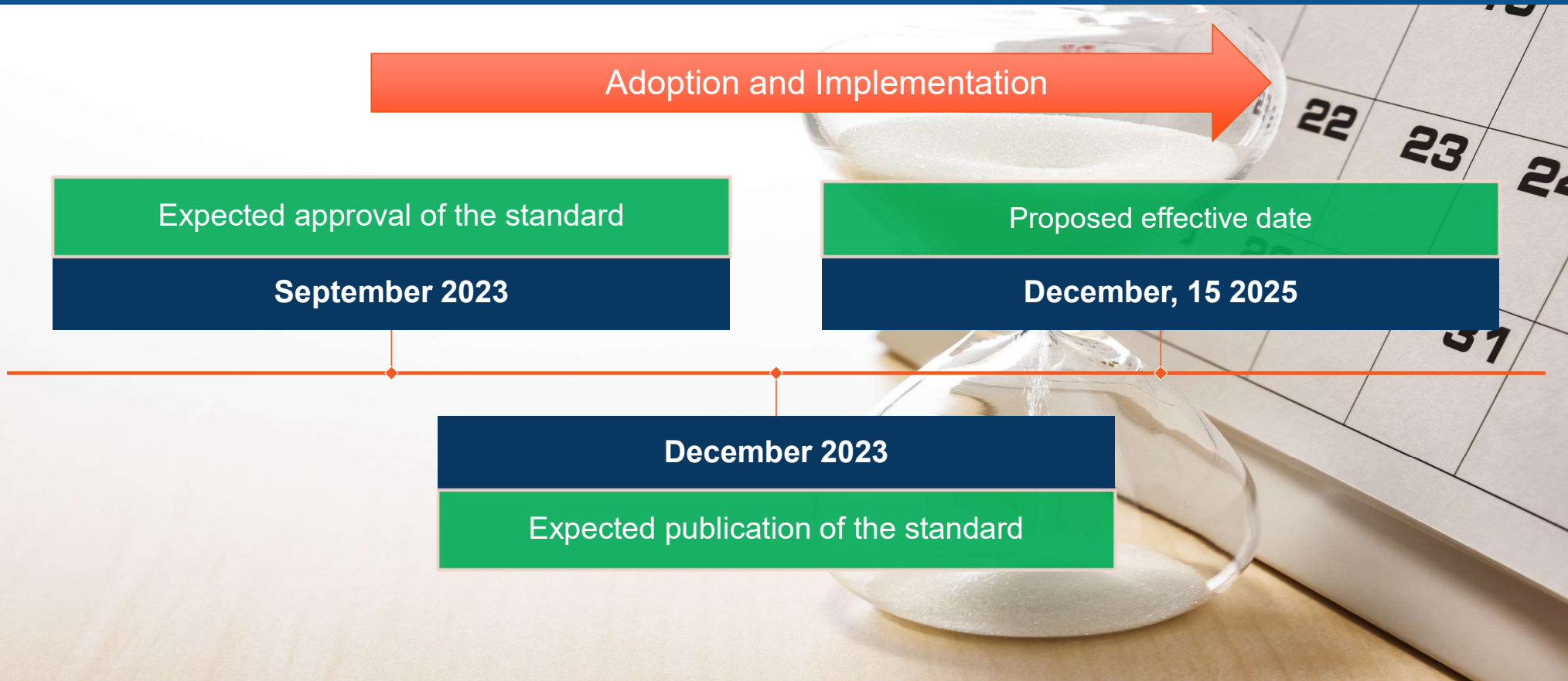
2. The Representatives are asked for their views on
  - a) The effective date of the ISA for LCE
  - b) The maintenance of the ISA for LCE
  - c) The IAASB's plan on adoption and implementation

## 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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