

Meeting: IAASB Consultative Advisory Group (CAG)
Meeting Location: Virtual Zoom Meeting
Meeting Date: December 7, 2023

Agenda Item C.1

Less Complex Entities – Cover and Report Back

Objective

1. The objective of this Agenda Item is to report back on Representatives' comments made at the September 2023 IAASB CAG meeting.

Project Status

2. At its September 2023 meeting, the IAASB approved the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE) and conforming amendments to other International Standards.
3. The **Appendix** to this paper provides a history of previous discussions with the IAASB CAG and the IAASB on this topic, including links to the relevant IAASB CAG documentation.

Way Forward

4. The Board will formally release the ISA for LCE and conforming amendments to the other International Standards in December 2023, after confirmation is received from the PIOB that due process was followed. The final approved text of the ISA for LCE is available in [Agenda Item 2-J](#) of the September 2023 meeting. The standard will become effective for periods beginning on or after December 15, 2025.

Report Back

5. Extracts from the draft September 2023 IAASB CAG meeting minutes relevant to audits of LCE, as well as an indication of how the LCE Task Force or the IAASB have responded to the Representatives' comments, is included in the table below.

Report Back on the September 2023 IAASB CAG Meeting	
Representatives' Comments	LCE Task Force / IAASB Response
PROPOSED REVISIONS TO THE PREFACE AND AUTHORITY	
Drs. Norberg and Cela and Ms. McGeachy did not support the Board's decision that the ISA for LCE shall not be used if the audit is an audit of group financial statements and component auditors are involved as the use of component auditors is not a proxy for the complexity of the entity. Dr. Norberg	Point noted. Mr. Hagen explained that the LCE Task Force and the IAASB have discussed this prohibition thoroughly balancing stakeholders' views. He noted that views were mixed and that it is important to balance all views. Mr. Hagen supported the

Report Back on the September 2023 IAASB CAG Meeting	
Representatives' Comments	LCE Task Force / IAASB Response
added that the standard should be published but suggested that the prohibition on the use of component auditors should be re-assessed as part of a post-implementation review. Ms. Blomme agreed with this suggestion and highlighted the importance of a post implementation review to identify areas that are challenging to apply in practice. Ms. McGeachy and Dr. Cela suggested a more principle-based approach with respect to the use of component auditors and Dr. Cela added that the prohibition on the use of component auditors may limit the use of the standard.	suggestion to re-assess the use of component auditors as part of a post implementation review.
Mr. Dalkin supported the Board's decision that the ISA for LCE shall not be used if the audit is an audit of group financial statements and component auditors are involved. He noted that government bodies often are group audits and that these audits, when looking at the qualitative characteristics, are often complexed and are therefore appropriately scoped out of the use of the standard.	Support noted.
Mr. Ruthman noted that internal auditors are often used in the public sector and therefore was concerned that entities who have an internal audit function are not allowed to use the ISA for LCE. He noted that the internal audit function within an entity may not be a proxy for complexity and that internal auditors should be treated as management's experts.	Point not accepted. Mr. Hagen explained that the presence of an internal audit function within an entity does not scope the entity out of the ISA for LCE and suggested to clarify this in the implementation guide. He furthermore explained that the standard itself does not include any requirements addressing the use of the internal auditors' work by the auditor as the use of the work of internal auditors would ordinarily not be applicable to an audit of a typical for LCE and that the public sector may be an exception.
PROPOSED REVISIONS TO PARTS 1–6	
Dr. Norberg supported the revisions made to Part 4 to require that the engagement letter should indicate that the ISA for LCE is used.	Support noted.

Report Back on the September 2023 IAASB CAG Meeting	
Representatives' Comments	LCE Task Force / IAASB Response
PROPOSED REVISIONS TO PARTS 7–10	
Mr. Ruthman noted that the section on comparative information and corresponding figures (section 9.7) is hard to understand without having read ISA 710 ¹ and therefore encouraged the LCE Task Force to enhance this section.	<p>Point not accepted .</p> <p>Mr. Hagen noted that the LCE Task Force will consider Mr. Ruthman's comment.</p> <p>The LCE Task Force decided not to make changes to this section as respondents to the Exposure Draft had not raised this issues and the Task Force was of the view that the requirements were sufficiently clear,</p>
OTHER MATTERS	
<i>Adoption and Implementation Plan</i>	
Ms. Blomme noted that the work on adoption of the ISA for LCE is about to start and might be difficult in some regions, including Europe, given the different views on whether group audits and component auditors should be included in the scope of the standards. Mr. Thompson agreed. Ms. Blomme also noted the importance of finding the right stakeholders that will help promoting the adoption of the standard. Mr. Thompson and Ms. McGeachy suggested to review the International Financial Reporting Standard for Small and Medium-Sized Entities's (IFRS for SME) adoption plan to learn from the IFRS Foundations successes and challenges.	<p>Point accepted.</p> <p>Mr. Hagen explained that the IAASB is working on materials to help jurisdiction adopt the ISA for LCE and that the IAASB will consider the IAASB CAG's suggestions.</p> <p>Subsequent to the September 2023 IAASB CAG meeting, Staff has reached out to the IFRS Foundation to learn from the IFRS Foundations successes and challenges.</p>
Ms. McGeachy noted that the ISA for LCE may be perceived as a lower quality audit than an audit performed under the ISAs and that this issue should be addressed by the IAASB as part of its adoption and implementation plan.	<p>Point accepted.</p> <p>Throughout the IAASB's adoption and implementation efforts, the IAASB will continue to emphasize that an audit performed using the ISA for LCE provides the same level of assurance as an audit performed using the ISAs.</p>
<i>Effective Date</i>	

¹ ISA 710, *Comparative Information – Corresponding Figures and Comparative Financial Statements*

Report Back on the September 2023 IAASB CAG Meeting	
Representatives' Comments	LCE Task Force / IAASB Response
Ms. McGeachy and Mr. Thompson supported the effective date of the standard while Mr. Rees questioned the need for an effective date of the standard, as it is a voluntary standard. He noted that the IFRS for SME did not have an effective date when it was initially published. However, Mr. Rees acknowledged that for future releases, an effective date is important.	<p>Point noted.</p> <p>Mr. Hagen thanked the Representatives for their comments and noted that the IAASB will consider their comments when deciding on the effective date.</p> <p>The IAASB decided to have an effective date. The standard will become effective for periods beginning on or after December 15, 2025.</p>

Appendix

Project Details and History

Project: Audits of Less Complex Entities

Link to IAASB Focus Area Page: [ISA for LCE Focus Area Page](#)

Link to IAASB Project Page: [Audits of Less Complex Entities Project Page](#)

Task Force Members

- Kai Morten Hagen, IAASB Member and Task Force Chair
- Julie Corden, IAASB Member
- Chun Wee Chiew, IAASB Member
- Sachiko Kai, IAASB Member
- Vivienne Bauer, IAASB Technical Advisor

Summary

	IAASB CAG Meeting	IAASB Meeting
Information Gathering	March 2017 September 2017 September 2018 March 2019 March 2020 September 2020	March 2017 March 2018 (Executive session) September 2018 March 2019 December 2019 April 2020 June 2020
Project Proposal	December 2020	December 2020
Development of Exposure Draft of ISA for LCE	March 2021 September 2021	March 2021 May 2021 June 2021
Development of final ISA for LCE	September 2022 March 2023	June 2022 September 2022 December 2022 March 2023

		June 2023 July 2023
Final pronouncement	September 2023	September 2023

IAASB CAG Discussions: Detailed References

Information Gathering	<u>March 2017</u> See IAASB CAG meeting material (Agenda Item G). <u>September 2017</u> See IAASB CAG meeting material (Agenda Item C). <u>September 2018</u> See IAASB CAG meeting material (Agenda Item I). <u>March 2019</u> See IAASB CAG meeting material (Agenda Item E). <u>March 2020</u> See IAASB CAG meeting material and CAG (Agenda Item N). <u>September 2020</u> See IAASB CAG meeting material (Agenda Item E).
Project Proposal	<u>December 2020</u> See IAASB CAG meeting material (Agenda Item A).
Development of Exposure Draft of ISA for LCE	<u>March 2021</u> See IAASB CAG meeting material (Agenda Item D). <u>September 2021</u> See IAASB CAG meeting material (Agenda Item F).
Development of final ISA for LCE	<u>September 2022</u> See IAASB CAG meeting material (Agenda Item B). <u>March 2023</u> See IAASB CAG meeting material (Agenda Item G).
Final pronouncement	<u>September 2023</u> See IAASB CAG meeting material (Agenda Item C)