



BRIEFING MEMO | IAASB

July 26, 2023 | Virtual Meeting

Disclaimer: This memo is prepared by PIOB staff, in advance of the SSB/CAG meeting, applying their best knowledge and their own judgement in identifying and communicating matters of public interest and due process. PIOB Staff views are discussed with the PIOB observer and the PIOB Board and do not pre-empt further PIOB's views or discussions. The main objectives of this memo are to support the PIOB member in his/her SSB/CAG meeting observation and to help maintaining consistency and continuity of oversight.

The agenda includes the following items:

1 – ISA FOR LCEs

Objective of the project: to develop a stand-alone ISA for audits of financial statements of Less Complex Entities (LCEs).

Background and Status: in response to the comments to the ED and feedback gathered at the international conference in May 2022, the IAASB had previously discussed revisions to all parts of the ISA for LCEs, except for Group audits. In addition, the ED for Part 10 (Group Audits) was approved in December 2022 and the comment period closed in May 2023. At the July mid-quarter call, the TF will discuss feedback received and proposed revisions to Part 10. The IAASB aims to approve the final ISA for LCEs in September 2023 (advanced from December 2023).

Notes/key points from the review of the documentation for this meeting

The Task Force (TF) will be presenting feedback received and its proposed revisions (item 1) for Part 10 on Group audits. Changes to the ED are provided in agenda item 1-A (marked) and 1-B (clean). Supplemental documentation has been provided with detailed responses to the ED (supplement 1 and 1-01).

The consultation received 60 comment letters, none from MG members. The CEAOB and 5 members of IFIAR (UK FRC, IAASA, AOB Malaysia, Botswana AOA and IRBA) provided feedback. The majority of responses were from the profession, PAOs¹ (58%) and Firms (22%).

Key input received on the ED and revisions to Part 10 are the following:

- Prohibition of the use of the ISA for LCEs when component auditors are involved (with limited exception for physical inspection) – There were mixed views about this proposal, some asked to remove the prohibition relating to component auditors, others asked to expand or clarify the exception when component auditors may be used, and lastly, some also asked to narrow down or fully remove any exception to the prohibition.
 - ☐ The TF proposes to retain the prohibition of using component auditors, with the same limited exception, but adding in the requirements two more examples of when physical presence of component auditors is acceptable: “e.g., attending a physical inventory count or inspecting physical assets, documents, or records”. They also propose Essential Explanatory Material (EEM) to clarify the definition of a component auditor. Further guidance, clarification and examples will be provided in the Authority Supplemental Guide.

- Qualitative characteristics relevant for groups. Overall, respondents were supportive of the additional characteristics for groups, but mostly questioned the use of “bright lines” (e.g. 5 or less entities or business units and 3 or less jurisdictions), and suggested some clarification on some descriptions.
 - ☐ The TF proposes to include clarification stating: “Numerical indicators have been provided as illustrative examples to describe a typical LCE and are not intended to be definitive”. In addition, they also have revised some of the qualitative characteristics, such as removing the example of number of jurisdictions (3 or less) and adding further description of other characteristics that may be considered in determining complexity when there are multiple jurisdictions (legislation, tax requirements, language, currency or common

¹ Includes PAOs that are also national standard setters.

economic zones); removing the reference to sub-consolidations or referring to similar (instead of same) accounting policies.

- Content of Part 10 and conforming amendments to other parts of the ISA for LCEs. Most respondents were supportive of the content of Part 10, offering some suggestions to align further with ISA 600 (Revised), eliminate duplication of requirements or enhance some of the existing ones.
 - ▣ The TF has retained the key content of Part 10, and made some revisions, mostly to add requirements to include understanding of IT systems and document such understanding.

Public Interest Issues

Please refer to the PIOB's Public Interest Issues on ISA for LCEs, as of March 2023, published in the PIOB website.

PIOB Staff comments on PI

Overall, the feedback from respondents is supportive of the addition of group audits to the scope of the ISA for LCEs, with certain limitations. This is consistent with the feedback received to the original ED. Respondents offer suggestions on how to enhance and clarify the requirements and guidance in the standard, or where more examples may be needed to ensure consistent implementation. The proposals of the TF are responsive to the feedback received, in particular, retaining the limited exception of the use of component auditors (and not further expanding it to other situations or any component auditor) to avoid adding more subjectivity to the decision of using the standard for a group audit (para. 18 c) of item 1), which is responsive to some concerns raised by regulators. Also, clarifications added to the description of qualitative characteristics responds to the most common concerns raised by respondents.

One aspect that may need further consideration is the proposal to include more clarification and illustrative examples of how to operationalize the exception on the use of component auditors through the Authority Supplemental Guide (para. 17 of item 1), instead of including requirements or more guidance within the standard (i.e.



EEM). From the number of concerns and different understanding of respondents, this seems to be an area with a higher risk of differing interpretations of when it is appropriate to use a component auditor or even who is to be considered a component auditor (especially in the increase of remote working), that may create diversity in practice and could be more difficult to enforce without guidance within the main body of the ISA for LCEs. The use of Authority Supplemental Guide with illustrative examples in other areas seems reasonable based on the feedback received.

In addition, it is worth mentioning that a couple of respondents (AICPA and IRBA) provided feedback about the need for re-exposure of the full standard. We note that the IAASB plans to address re-exposure as part of the final review of the full ISA for LCEs in September. The PIOB will monitor the considerations at the time it is discussed by the full board.

We keep supporting this project, for the potential it has in addressing/preventing jurisdictional fragmentation, and continue encouraging the IAASB to maintain the outreach with regulators to address their concerns.