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The New IDW Auditing Standards for Less Complex Entities (IDW AuSLCEs)

In the last several years, standard setting for the International Standards on Auditing (ISAs) at the IAASB has been driven by the increasing influence of regulators – in particular those regulators with an interest in the audits of financial statements of banks, insurance companies and listed entities – which led to greater length and complexity of auditing standards to address related public interest issues and to an increasing pace of change in those auditing standards. For these reasons, those auditing standards are becoming increasingly disproportionate for, and difficult to apply in a scalable manner to, audits of financial statements of less complex entities (LCEs). Since translations of the ISAs are adopted in Germany as German auditing standards, these issues also affect auditing standards in Germany. To address this situation, on December 5, 2021, the Hauptfachausschuss (HFA) [Auditing and Assurance Board] of the Institut der Wirtschaftsprüfer in Deutschland (Institute of Public Auditors in Germany – “IDW”) issued a set of draft IDW Auditing Standards for Less Complex Entities (IDW AuSLCEs) to serve as a more proportionate and scalable basis for the performance of audits of financial statements of LCEs in Germany. Although these standards depart from the otherwise applicable German generally accepted principles for audits of financial statements and from the ISAs, the objective of these standards is to enable auditors of financial statements of LCEs to obtain reasonable assurance as to whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The draft standards are stand-alone in that their application does not require any referencing back to the requirements and guidance in German generally accepted principles for audits of financial statements or to the requirements and guidance in the ISAs.

The draft standards do not apply to audits of financial statements of public interest entities as defined in EU legislation and of listed entities as defined by the ISAs. Furthermore, the draft standards cannot be applied to entities whose IT related to financial reporting is of high complexity and whose business and transactions are complex. The standards were drafted on the presumption that the entity, its financial statements, and the audit thereof have certain characteristics as described in IDW AuSLCE 1 (national customization). However, if one or more of these characteristics does not apply, the auditor is required to deal with these circumstances by augmenting the auditor’s audit procedures to obtain sufficient appropriate audit evidence.

First-time adoption of the standards is contemplated for audits of financial statements of LCEs for periods beginning on or after December 31, 2021. Voluntary early adoption would not be permitted. Depending on audit standard setting developments at the IAASB, the issuance of the IDW AuSLCEs does not preclude the future adoption of final ISAs for LCEs, an exposure draft of which has been published by the IAASB in July 2021.

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The eight draft standards in the original German version are available at <https://www.idw.de/idw/verlautbarungen/entwuerfe>. To provide transparency at an international level in relation to these standards, English versions of the seven standards thereof that do not relate to matters solely relevant in Germany have been also provided at <https://www.idw.de/the-idw/idw-pronouncements>. To ease reading and understanding by interested parties outside of Germany in any comparison with the original ISAs or the draft IAASB ISAs for LCEs, matters that are applicable in only a German environment have been largely deleted from the English version of these seven standards. However, only the original German versions of the draft standards are official.