DECEMBER 2023

INTRODUCTION TO THE ISA FOR LCE

The International Standard on Auditing
for Audits of Less Complex Entities

AUDITS OF LESS COMPLEX ENTITIES

FACT SHEET

IAASB International Auditing and Assurance Standards Board

BACKGROUND

WHAT?

The **International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCEs)** is a new stand-alone auditing standard available for auditors of less complex entities. The standard contains all requirements necessary to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error.

WHEN?

The ISA for LCE is effective for audits of financial statements for periods beginning on or after **December 15, 2025**. Early adoption of the ISA for LCE is permitted.

HOW?

The ISA for LCE is:

- Proportionate and tailored to the specific needs of an audit of less complex entities
- Based on the underlying concepts from the ISAs

WHY USE THE ISA FOR LCE?

Obtain **reasonable assurance** while using a standard that is:

- Easy to understand with plain, simple language and follows the flow of an audit
- Clear, succinct and concise requirements and guidance
- Focused on matters applicable to LCEs

WHAT OUTCOME DOES THE STANDARD SEEK TO ACHIEVE?

The ISA for LCE is intended to:

- **Maintain confidence** in financial reporting of LCEs.
- Help auditors of less complex entities deliver **consistent and effective high-quality audits**.
- Be responsive to **stakeholder needs**.
- **Promote consistent application** of the auditing standards to audits of LCEs.

AUTHORITY OF THE STANDARD

WHEN CAN THE STANDARD BE USED

The Authority of the ISA for LCE describes the entities for which the standard can be used, by including:

SPECIFIC PROHIBITIONS

The ISA for LCE *cannot* be used for audits of:

- Listed entities
- Entities with public interest characteristics
- Groups where component auditors are involved, except for limited circumstances

Or

- When otherwise prohibited by jurisdictions

QUALITATIVE CHARACTERISTICS

The ISA for LCE describes an LCE's characteristics related to the entity's:

- Business activities and model
- Organizational and ownership structure
- Finance function and IT
- Financial reporting framework and accounting estimates
- Consolidation process

QUANTITATIVE THRESHOLDS

The ISA for LCE anticipates that standard setting authorities set quantitative thresholds as these thresholds assist in the consistent and appropriate use of the ISA for LCE in a jurisdiction

NECESSARY STEPS BEFORE THE ISA FOR LCE CAN BE USED

Jurisdictions

- Allow or require use of the ISA for LCE
- Modify classes of entities with public interest characteristics
- Determine quantitative thresholds

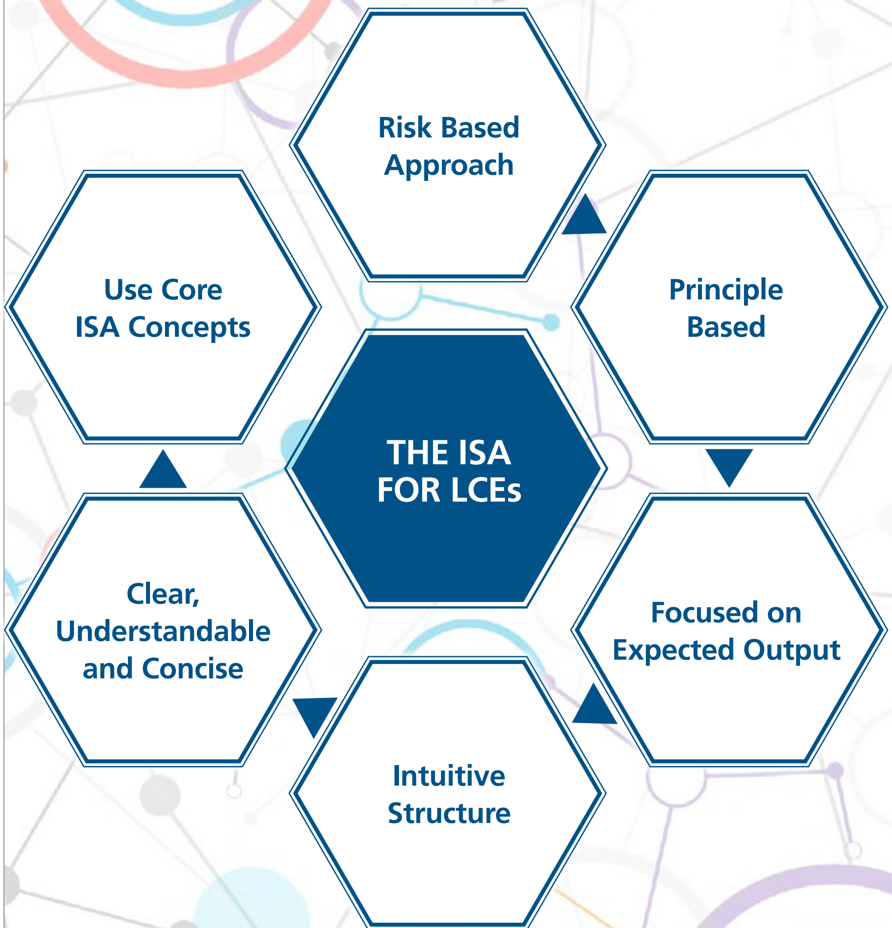
Firms

- Establish policies and procedures

Engagement Teams

- Evaluate against qualitative characteristics at client acceptance / continuance and throughout audit
- Stand-back requirement during the risk identification and assessment process

DESIGN PRINCIPLES



THE DESIGN PRINCIPLES ENABLE THE ISA FOR LCE TO:

- Be applied to less complex entities with a wide range of circumstances and across sectors or industries
- Focus on the outcome of the requirement
- Avoid any unnecessary words, repetition, or ambiguous language

THE FLOW OF THE STANDARD

BROAD CONCEPTS AND OVERARCHING PRINCIPLES

- **PART 1** Fundamental Concepts and General Principles
- **PART 2** Audit Evidence and Documentation
- **PART 3** Engagement Quality Management

PROCEDURAL REQUIREMENTS

- **PART 4** Acceptance or Continuance
- **PART 5** Planning
- **PART 6** Risk Identification and Assessment
- **PART 7** Responding to Assessed Risks of Material Misstatement
- **PART 8** Concluding

REPORTING

- **PART 9** Forming and Opinion and Reporting

PART 10 Group Audits

LAYOUT OF EACH PART OF THE STANDARD

ISA FOR LCE

2. Audit Evidence and Documentation

Content of this Part

Part 2 sets out the requirements to be applied throughout the audit for:

- Audit evidence.
- Documentation. Within individual Parts there may also be additional specific documentation requirements.

Scope of this Part

The requirements in this Part apply throughout the audit engagement.

2.1. Objectives

2.1.1. The objectives of the auditor are to:

(a) Design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion; and

(b) Prepare documentation that provides a sufficient and appropriate record of the basis for the auditor's report and provides evidence that the audit was planned and performed in accordance with the ISA for LCE and applicable law or regulation.

2.2. Sufficient Appropriate Audit Evidence

2.2.1. To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level thereby enabling the auditor to draw reasonable conclusions on which to base the auditor's opinion.

2.2.2. The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

Sufficiency is the measure of the quantity of audit evidence. It is affected by the auditor's assessment of the risks of material misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also the quality of the audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate if it is of poor quality.

Appropriateness is the measure of the quality of the audit evidence, that is its relevance and reliability in providing support for the conclusions on which the auditor's opinion is based.

Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence. Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgment.

INTRODUCTION

Summary of the content and scope of the Part

OBJECTIVE

Link the requirements of the Part and the overall objectives of the auditor

REQUIREMENTS

Designed to obtain sufficient appropriate audit evidence

Auditor must comply with all relevant requirements

ESSENTIAL EXPLANATORY MATERIAL

Limited guidance where essential to understanding or applying a requirement or a concept

Does not impose a requirement or expand any requirement

Located directly below the relevant requirement

ADOPTION AND IMPLEMENTATION

Additional materials will be issued in 2024

- ✓ First time implementation guide
- ✓ Supplemental Guides on Authority and Reporting
- ✓ Webinars
- ✓ Outreach
- ✓ Liaison with IFAC, NSSs and PAOs
- ✓ Factsheet on adoption
- ✓ FAQ

Further implementation support materials are available on the IAASB website.

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