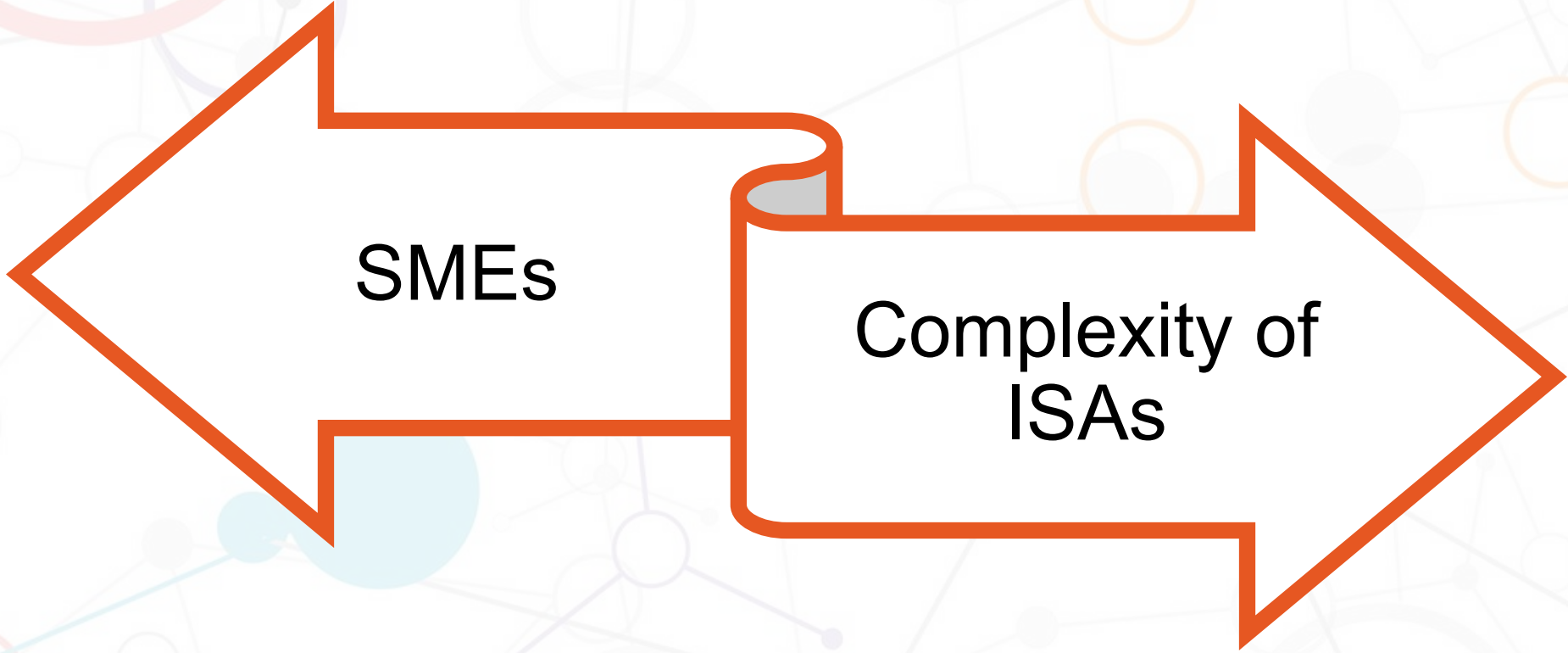




The ISA for LCEs

The International Standard
on Auditing for Audits of
Financial Statements of Less
Complex Entities

The need for a global solution



The diagram features two large, stylized orange arrows pointing in opposite directions. The left arrow points left and contains the text 'SMEs'. The right arrow points right and contains the text 'Complexity of ISAs'. The arrows are connected at their bases, forming a continuous shape. The background is a light gray network of nodes and lines, with several nodes highlighted in blue, red, and orange circles.

SMEs

**Complexity of
ISAs**

The IAASB's Journey



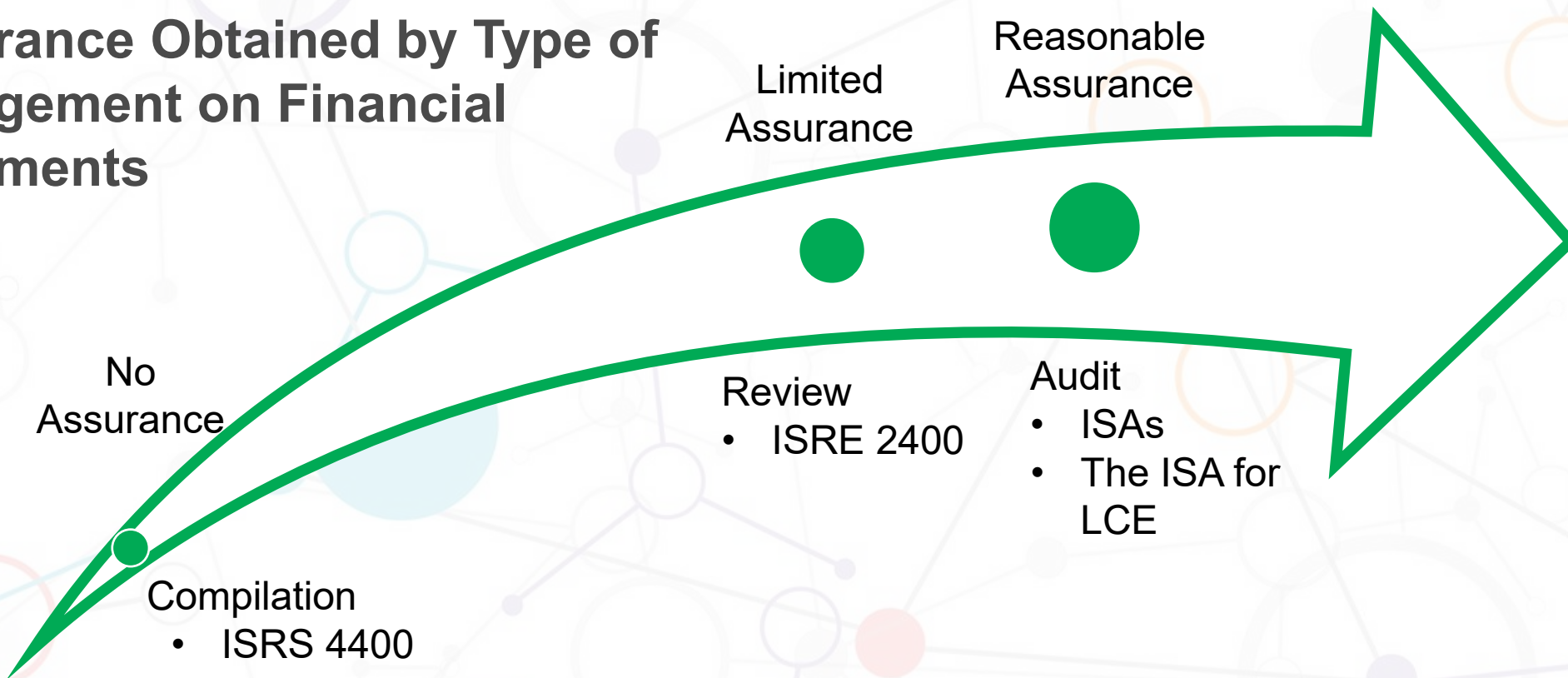
A Standard Focused on LCEs

**Stand-alone, proportionate
and tailored** to the needs of
an audit of an LCE

Easier to navigate for
practitioners supporting these
engagements

Reasonable Assurance

Assurance Obtained by Type of Engagement on Financial Statements



A Global Solution

Maintain confidence in financial reporting of LCEs



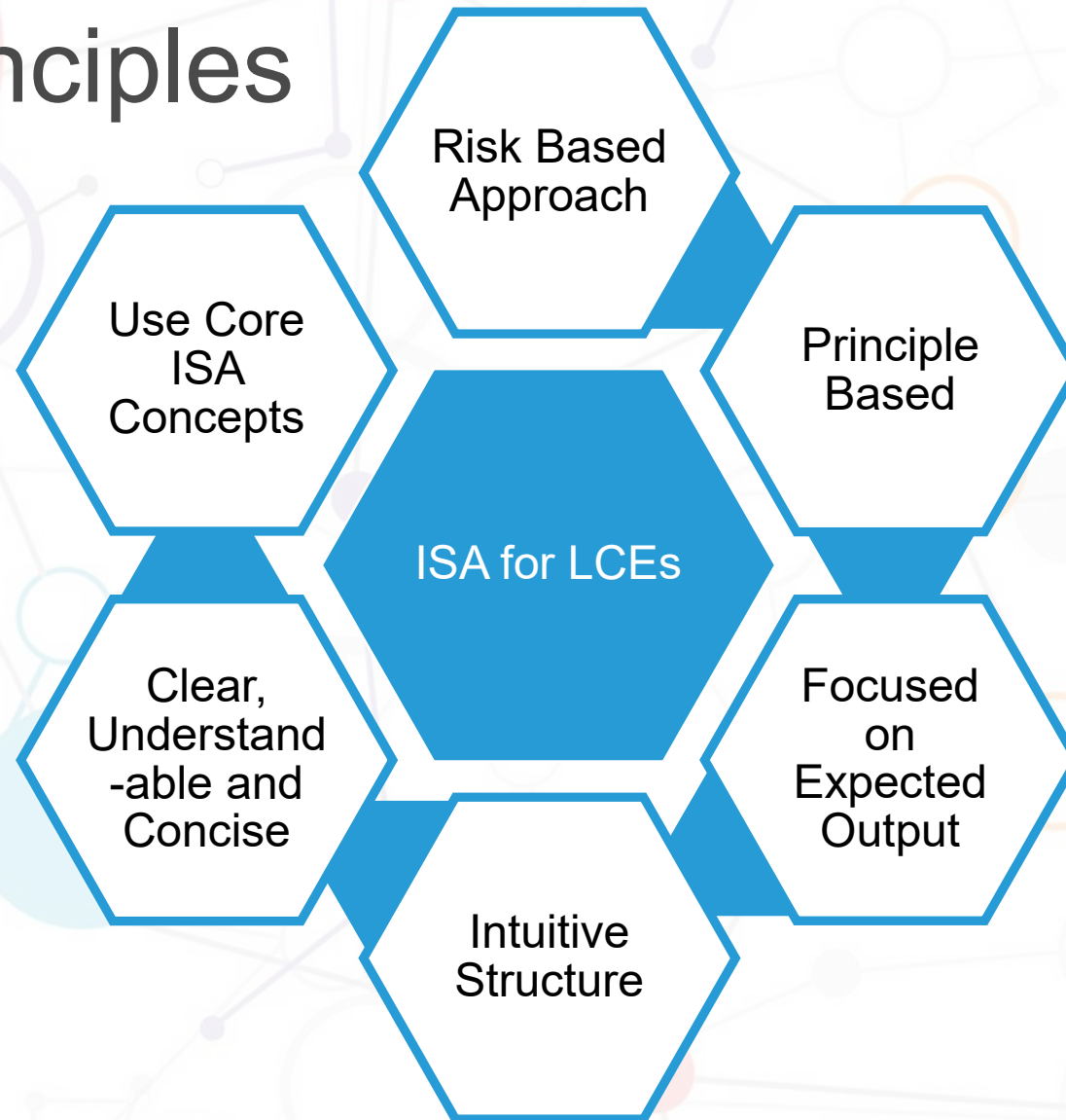
Promote consistent application of the auditing standards to audits of LCEs



Why use the ISA for LCE?

The ISA for LCE will help auditors deliver consistent and effective high-quality audits for less complex entities.

Design Principles



Authority

1. Specific Prohibitions

- Listed Entities
- Entities with public interest characteristics
- Otherwise prohibited by jurisdictions

2. Qualitative Characteristics

- Business activities and model
- Organization and ownership structure
- Nature of finance function
- Information technology
- Financial reporting framework and accounting estimates

3. Quantitative Thresholds

- As defined by jurisdictions

Group Audit Considerations

- Use of component auditors, except for limited circumstances
- Group Structure
- Access to Information or People
- Consolidation Process

Responsibilities

Jurisdictions

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

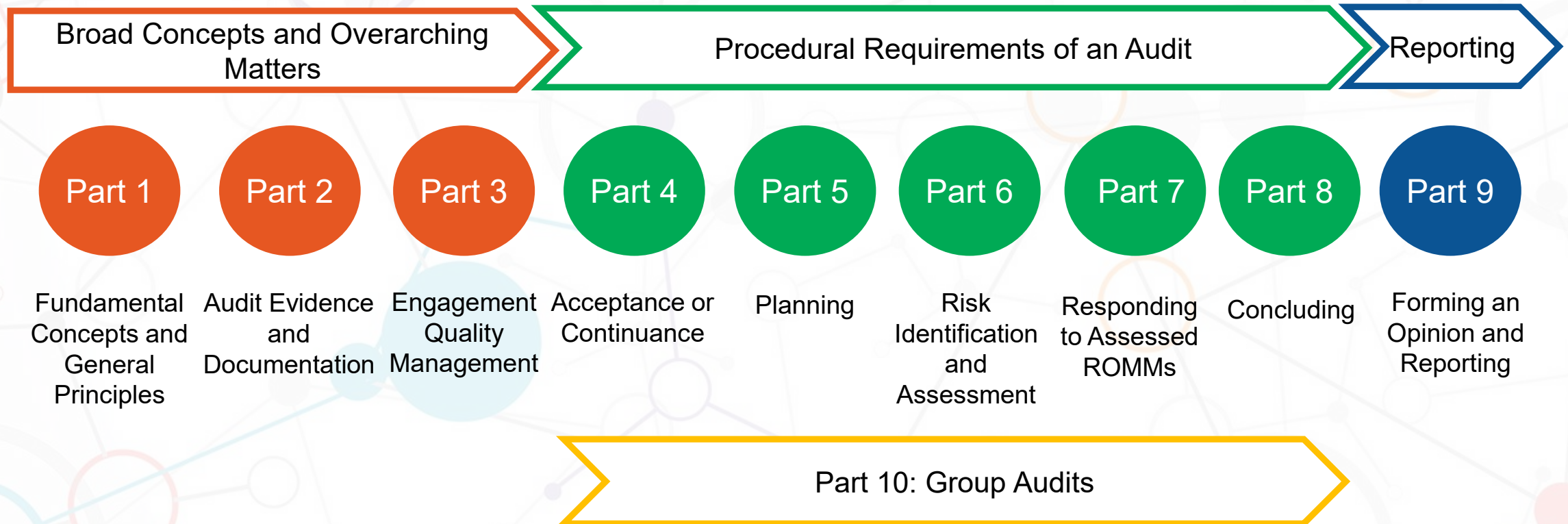
Firms

- Establish policies and procedures

Engagement Teams

- Evaluate against qualitative characteristics at client acceptance / continuance and throughout audit
- Stand back requirements

The Flow of the Standard



The Flow of the Standard

Broad Concepts and Overarching Matters

Part 1

Fundamental Concepts and General Principles

Part 2

Audit Evidence and Documentation

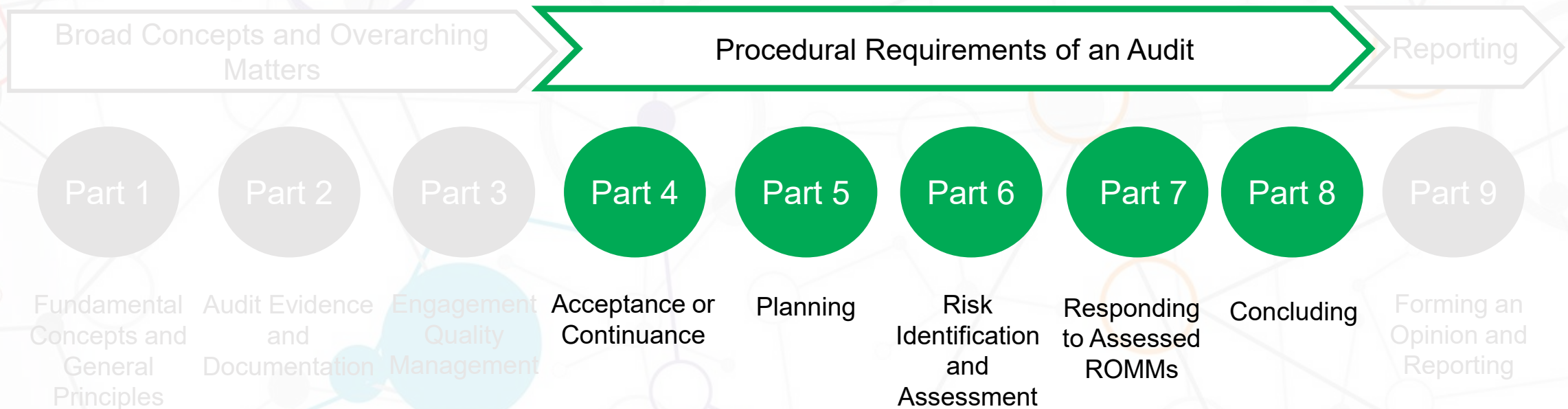
Part 3

Engagement Quality Management

Acceptance and Continuance

- Overall Objectives
- Overarching Requirements
 - Professional Judgment
 - Professional Skepticism
 - Fraud
 - Law or Regulation
 - Related Parties
- General Documentation & Communication Requirements
- Quality Management

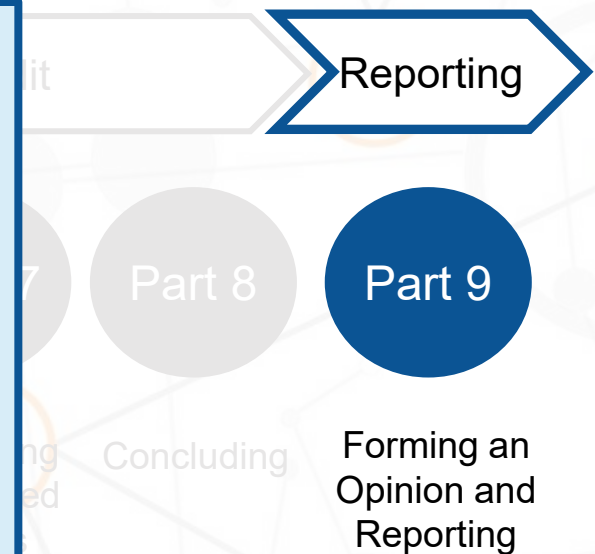
The Flow of the Standard



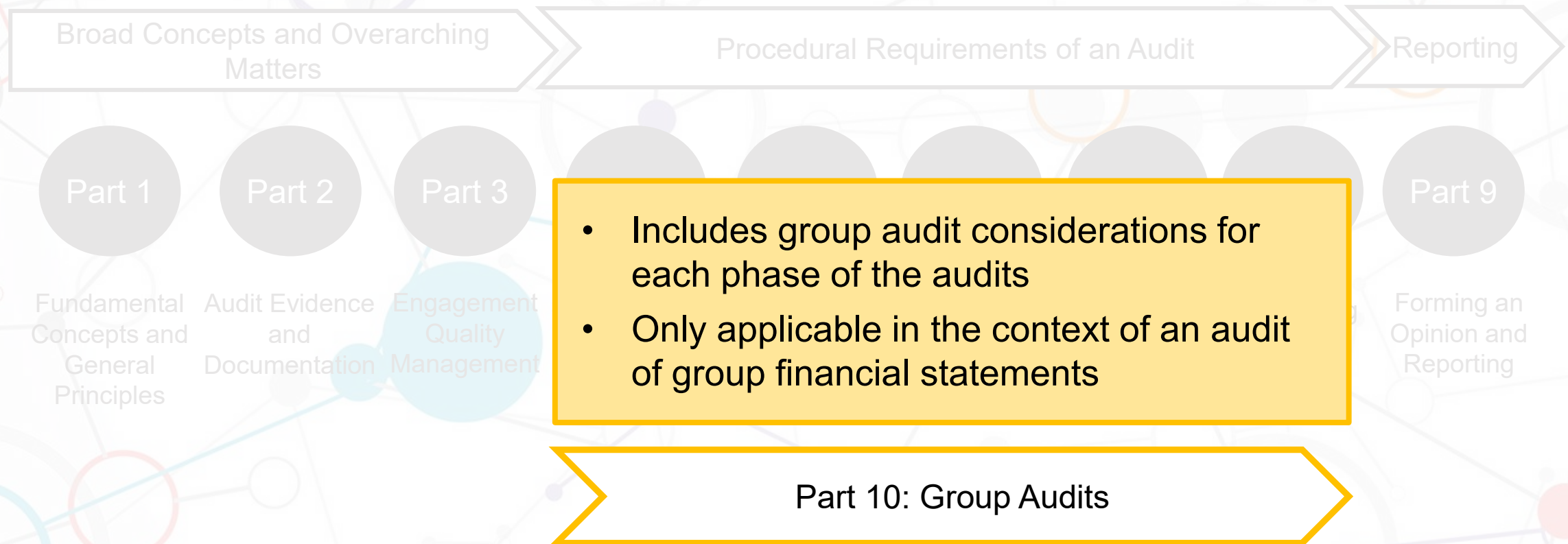
- Audit concepts are grouped based on the phase of the audit (e.g., Planning includes requirements around determining materiality, Concluding includes evaluation of subsequent events, etc.)
- Includes appendices to provide additional guidance

The Flow of the Standard

- Specified content and format for unmodified auditor's report
- Departures not permitted except for compliance with law or regulation
- Use of tables to present requirements related to modifications and Other Matter / Emphasis of Matter paragraphs
- Also covers Other Information & Comparative Information
- Supplemental Guidance: Auditor Reporting
 - Modifications
 - Other reporting guidance
 - Illustrative reports



The Flow of the Standard



Layout

Objective

- Link the requirements of the Part and the overall objective of the audit

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

Introduction

- Summary of the content and scope of the Part

Requirements

- Designed to obtain sufficient appropriate audit evidence
- Auditors must comply with all relevant requirements

IAASB Main Agenda (September 2023)

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, 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.

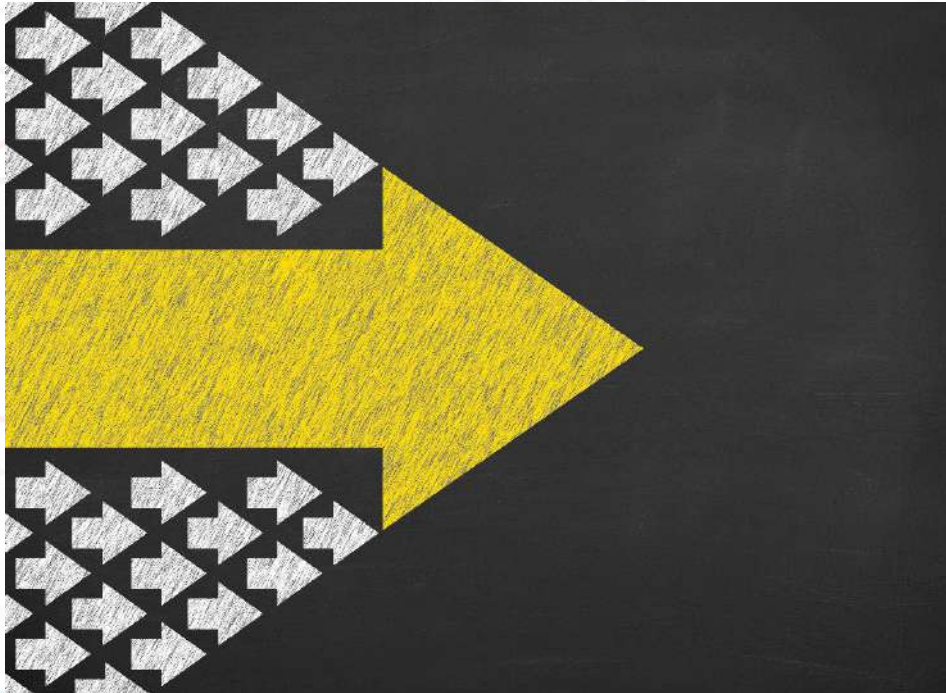
Appropriateness is the measure of the quality of the audit evidence, that is its relevance and reliability in providing support for the conclusions on which the auditor's opinion is based.

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.

ISA for LCE vs ISAs

	ISA for LCEs	ISAs
Authority	Audits of LCEs	All audits
Structure	One standard, including 10 Parts	37 standards
Requirement for matters or circumstances that would have deemed more complex	Not included	Included
Guidance	Adjoined to the requirement	Extensive and separate from the requirements
Examples	Focused on LCE	Wide range of entities

Adoption and Implementation



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