



Meeting: Stakeholder Advisory Council (SAC)
Meeting Location: New York, United States of America
Meeting Date: April 30, 2024

Agenda Item

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ISA for LCE (IAASB) – Cover

Objective of Agenda Item

1. The objective of this Agenda Item is to provide an overview of the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the ISA for LCE) adoption and implementation activities and seek views to further promote the global adoption and implementation of the ISA for LCE.

Project Status

2. The IAASB approved the final pronouncement at its September 2023 meeting and published the standard in December 2023 after certification of the Public Interest Oversight Board.
3. Since the approval of the ISA for LCE, the IAASB has focused its effort on developing materials to support the adoption and implementation of the standard. The IAASB has released the following publications on the adoption of the ISA for LCE:
 - A factsheet presenting the expected outcomes the standard seeks to achieve, a description of when the standard can be used and an overview of the different parts and requirements of the standard;
 - A three-part video series focusing on answering certain questions critical to the adoption decisions, such as the key benefits of using the standard to perform audits of LCEs, a closer look at the applicability of the standard and a step-by-step walkthrough of the content of the standard; and
 - A frequently asked questions document to respond to some of the questions we have received through outreach activities thus far.
 - An overview presentation deck that can be used for jurisdictions when promoting the ISA for LCE.
4. To further support the adoption and implementation of the ISA for LCE in jurisdictions, the IAASB is currently developing the following materials:
 - Adoption guide. This guide focuses on the common steps and approaches jurisdictions may take on when embarking in their adoption journey.
 - Supplemental Guide on Authority. This guide explains matters and circumstances that may be relevant in determining whether the ISA for LCE can be used.

- Supplemental Guide on Reporting. This guide provides additional guidance for auditors with regard to modifications to the auditor's report when using the ISA for LCE.
 - First time implementation and transition guide addressing various matters raised by respondents to the Exposure Draft of the ISA for LCE and throughout the outreach activities.
5. In addition, the IAASB held a global webinar to help stakeholders understand the ISA for LCE and its benefits, and the IAASB liaises on an on-going basis with International Federation of Accountants who is supporting the global implementation of the ISA for LCE. The IAASB is also joining different regional outreach activities to promote the ISA for LCE.

SAC Discussion

Key Benefits and Challenges to Adopting the ISA for LCE

6. The ISA for LCE is a new stand-alone auditing standard available for less complex entities and is an alternative standard to the International Standards on Auditing (ISAs) for audits of financial statements of less complex entities. Due to its stand-alone nature, jurisdictions must decide to adopt the standard.
7. The IAASB recognizes that adopting the ISA for LCE involves engaging with many stakeholders to reach an agreement. Therefore, discussions between all stakeholders, such as national auditing standard setters, regulators, professional accountancy organizations, firms, and users of financial statements, are important to build a consensus prior to adopting the ISA for LCE.
8. The IAASB believes that the ISA for LCE is addressing concerns from auditors of less complex entities and provides a global solution. There are several reasons why jurisdictions should choose to adopt the ISA for LCE and the IAASB identified the following key benefits:
- The ISA for LCE is proportionate and tailored to the needs of an audit of an LCE, making it easier to navigate for practitioners supporting these engagements. The standard is focused on the requirements and guidance that are relevant to the LCEs, and therefore reduced the need for the auditors to determine which requirements and application material are applicable. In addition, this may result in more consistent approach to auditing less complex entities than having each auditors scale the ISAs for the audit needs of an LCE.
 - The ISA for LCE enables auditors to obtain the same level of assurance as under the ISAs: reasonable assurance. All requirements necessary to obtain sufficient appropriate audit evidence to reduce the audit risk to an acceptably low level (for a less complex entity) have been included in the ISA for LCE.
 - The ISA for LCE maintains confidence in financial reporting of LCEs by promoting consistent application of the auditing standards to audits of LCEs.
9. During its outreach activities, the IAASB has also heard concerns about:
- The ability to obtain a reasonable assurance when using the ISA for LCE. Stakeholders questioned the ability of auditors to reduce audit risk to an acceptably low level and provide an audit opinion on the financial statements of a less complex entity given that not all requirements have been included in the ISA for LCE. In addition, auditors questioned whether the requirements can be consistently applied given that limited guidance is provided in the standard on how to apply the requirements.

- The potential efficiency gains for auditors when performing an audit of financial statements of less complex entities under the ISA for LCE. For example, stakeholders noted that the ISA for LCE is not sufficiently differentiated from the ISAs.
 - The costs associated with having two sets of auditing standards to maintain and support. The ISA for LCE can only be used for audits of financial statements of less complex entities and therefore, another set of auditing standards will have to be adopted for other audits. Firms also expressed concerns with having to develop two audit methodologies and ensure that their practitioners are trained in both methodologies.
 - Transitioning in and out of the ISA for LCE if an entity no longer meets the criteria as set out in the Authority. Having to follow different auditing standards year after year, or mid-engagement, may cause complexity for the engagement team.
10. In developing the ISA for LCE's adoption and implementation material, the IAASB will consider the questions and concerns raised by stakeholders and proposes solutions to address these concerns.
11. In addition to the concerns raised, some jurisdictions won't adopt the standard as they have recognized the need for a tailored and proportionate standard to appropriately serve less complex entities in their jurisdiction and are developing or have developed a local standard to respond to these needs.
12. The IAASB is seeking views from the SAC members to understand if there are any challenges in their jurisdictions to adopt the ISA for LCE. The IAASB is also interested in the SAC members views on how these challenges may be mitigated.

Maintenance of the ISA for LCE

13. During the development of the standards, stakeholders had mixed views about the maintenance to the standard. Some stakeholders noted the importance of having consistency between the ISAs and the ISA for LCE and were of the view that the timing of revisions to the ISAs and the ISA for LCE should be aligned. This has been brought forward consistently, especially related to the proposed revisions related to ISA 240, *The Auditor's Responsibilities Related to Fraud in an Audit of Financial Statements*, and to ISA 570, *Going Concern*, that may be applicable to audits of LCE.
14. Other stakeholders were of the view that providing a stable platform is important given the efforts needed to update methodologies and educate auditors. It was noted that accumulating changes from the ISAs and revising the proposed ISA for LCE periodically will enable auditors to have sufficient time to digest and operationalize revisions to the ISA for LCE. They also noted that having a stable platform could encourage the adoption of the standard and that the IFRS Foundation has a similar approach for updating the IFRS for SME Accounting Standards.
15. The IAASB is of the view that the ISA for LCE must remain up to date and, to the greatest extent possible, consistent with the ISAs and agrees with respondents that proposed revisions must be relevant for LCEs. However, the IAASB recognizes that the ISA for LCE is a new standard and considerable effort will be required in terms of its adoption and implementation. Therefore, the IAASB is of the view that a period of stability of at least three years once the standard becomes effective (i.e., the first revision to the ISA for LCE would not become effective before December 15, 2028) would be appropriate in terms of balancing the different demands and expectations.

16. The IAASB is seeking views from the SAC members on the approach to the future updates and maintenance of the standard after the initial period of stability has passed.

Matters for SAC Consideration

SAC Members are asked for their views on:

1. What the challenges are, if any, in their jurisdiction, or that they may otherwise anticipate or be aware of, to adopt the ISA for LCE and how these challenges can be mitigated.
2. How the IAASB can further facilitate and encourage others to promote the adoption of the ISA for LCE, including key stakeholders that the IAASB may reach out to.
3. The maintenance cycle of the ISA for LCE.
4. There are any other matters that the IAASB should consider regarding the adoption and implementation of the ISA for LCE.

Way Forward

17. The IAASB is planning to publish the materials as described in paragraph 4 in Q2 and Q3 of 2024. The IAASB continues its outreach activities throughout 2024 to promote the adoption and implementation of the ISA for LCE.

Material Presented

For Discussion

Agenda Item G.1: Presentation

Appendix 1

Project Details and History

Project: ISA for LCE

Link to IAASB Project Page: <https://www.iaasb.org/consultations-projects/audits-less-complex-entities>

Task Force Members

- Kai Morten Hagen, Task Force Chair
- Chun Wee Chiew
- Julie Corden
- Sachiko Kai
- Vivienne Bauer

IAASB Staff Assigned to Project

- Jasper van den Hout
- Isabelle Raiche
- Kazuko Yoshimura

Summary

	SAC Meeting	IAASB Meeting
Information Gathering		March 2017 September 2018 March 2019 December 2019 April 2020 June 2020
Project Proposal		December 2020
Development of Exposure Draft		March 2021 May 2021 June 2021
Development of Final Pronouncement		June 2022 September 2022 December 2022

ISA for LCE
SAC Public Session (April 2024)

		March 2023 June 2023 July 2023 September 2023
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