

Basis for Conclusions
Prepared by the Staff of the IAASB
December 2023

International Standard on Auditing

**International Standard on Auditing for
Audits of Financial Statements of Less
Complex Entities (ISA for LCE)**

**Including Conforming Amendments to
Other International Standards**

About the IAASB

This document has been prepared by the Staff of the International Auditing and Assurance Standards Board (IAASB). It does not constitute an authoritative pronouncement of the IAASB, nor does it amend, extend or override the International Standards on Auditing (ISAs) or other of the IAASB's International Standards.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related services standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board (PIOB), which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance.

For copyright, trademark, and permissions information, please see [page 35](#).

ISA.



**BASIS FOR CONCLUSIONS: INTERNATIONAL STANDARD ON AUDITING FOR
AUDITS OF FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES**

CONTENTS

	Page
Section A – Introduction	5
Background	5
Exposure Draft of Proposed ISA for LCE	6
Exposure Draft of Proposed Part 10, Audits of Group Financial Statements of the Proposed ISA for LCE	6
Public Interest Issues	7
Section B – Reasonable Assurance	11
Background	11
Summary of Comments Received on Exposure	12
IAASB Decisions	12
Section C – Standalone Nature of the ISA for LCE	12
Background	12
Summary of Comments Received on Exposure	13
IAASB Decisions	13
Section D – Authority	14
Background	14
Summary of Comments Received on Exposure	14
IAASB Decisions	16
Section E – Proportionality of the Standard	18
Background	18
Summary of Comments Received on Exposure	18
IAASB Decisions	20
Section F – Group Audits	23
Background	23
Summary of Comments Received on Exposure	23
IAASB Decisions	24
Section G – Other	25
800-Series	25

BASIS FOR CONCLUSIONS: ISA FOR LCE, INCLUDING RELATED CONFORMING AMENDMENTS TO OTHER
INTERNATIONAL STANDARDS

Relevant Ethical Requirements and Firm-level Quality Management	25
Engagement Letter	26
Going Concern	26
Materiality	27
Responding to Assessed Risks of Material Misstatement	27
Subsequent Events	29
Reporting	30
Re-Exposure	31
Section H – Conforming Amendments	32
Section I – Effective Date	33
Section J – Maintenance	34
Background and Summary of Comments Received on Exposure	34
IAASB Decisions	34

The Staff of the IAASB has prepared this Basis for Conclusions. It relates to but does not form part of the ISA for LCE, or the conforming amendments to other International Standards.

The ISA for LCE and the conforming amendments to other International Standards were approved at the September 2023 IAASB meeting with affirmative votes of 17 out of 18 IAASB members.¹

Section A – Introduction

Background

1. Between 2005–2009 the ISAs were clarified and revised with a view to being applied to audits of entities of all sizes and complexity. As part of the post-implementation review (which was completed in 2013), the IAASB conducted a survey that highlighted a number of concerns around the scalability and proportionality of requirements within the ISAs, and the nature and extent of documentation required.
2. In considering the findings from the post-implementation review, the IAASB acknowledged that the volume and complexity of the standards may result in challenges for audits of less complex entities (LCEs). Accordingly, the IAASB recognized in its Strategy for 2015–2019, that in order to achieve effective implementation globally, its standards need to be, and be seen to be, proportionate and scalable for audits of all sizes and complexity.
3. Following the initial work of Staff and an informal group of present and past Board members and other external experts at different times during 2017–2018, an IAASB Working Group was established at the start of 2019 to progress the development of a Discussion Paper as part of the Board's information gathering and research on the topic of applying the ISAs to audits of financial statements of LCEs, including a focus on the scalability and proportionality of requirements in the ISAs. The [Discussion Paper, Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs](#) was published in April 2019. The matters noted in the responses to the Discussion Paper were summarized in a [Feedback Statement](#).
4. Based on the feedback received on the Discussion Paper and further targeted outreach, the Board decided in June 2020 that its further work will benefit from bifurcating and focusing efforts in specific areas and agreed to two workstreams:
 - (a) An 'ISA Focused Workstream' focusing on the complexity, understandability, scalability and proportionality (CUSP) issues identified in the ISAs more broadly, to address challenges that have been identified in applying the ISAs, for audits of all types of entities, including audits of LCEs; and
 - (b) A 'Separate Standard Workstream' exploring the development of a separate standard to focus on audits of LCEs.
5. In December 2020, the [Project Proposal](#) for the workstream to develop a separate standard was approved by the IAASB.² It was agreed that the project is intended to serve the public interest by:
 - (a) Maintaining confidence in financial reporting of LCEs.

¹ For a full record of the voting on the ISA for LCE, including the rationale of the IAASB member who abstained from the vote, see <https://www.iaasb.org/meetings/iaasb-quarterly-board-meeting-september-18-21-2023>.

² At the time of approval of the Project Proposal, the Working Group for the separate standard became the LCE Task Force, which took the project forward.

- (b) Helping auditors of LCEs undertake a consistent, effective and proportionate approach to producing high-quality audits.
- (c) Being responsive to stakeholder needs – to address a growing and consistent call for an appropriate solution to the challenges of proportionality and scalability in the ISAs.
- (d) Promoting a more consistent application of the auditing standards to audits of LCEs particularly where alternative approaches are emerging.

Exposure Draft of Proposed ISA for LCE

6. At its June 2021 meeting, the IAASB approved the [Exposure Draft](#) of *Proposed ISA for LCE (ED-ISA for LCE)*. During the development of the draft standard the IAASB leveraged an international "[LCE Reference Group](#)," comprised of representatives from the LCE community across a broad range of jurisdictions, in order to receive real-time stakeholder feedback.
7. ED-ISA for LCE was issued on July 23, 2021, and closed for comment on January 31, 2022. During the exposure period, the IAASB undertook various outreach activities and also developed a survey in collaboration with International Federation of Accountants (IFAC) to offer an alternative way to participate in the consultation. Together with the ED-ISA for LCE, the IAASB published non-authoritative guides on the Authority of the Standard ([the Authority Supplemental Guide](#)) and Reporting ([the Reporting Supplemental Guide](#)), and [mapping documents](#).³
8. In total, 145 comment letters were received on ED-ISA for LCE, including from regulators and audit oversight authorities, jurisdictional/ national auditing standard setters (NSS), accounting firms, public sector organizations, professional accountancy and other professional organizations, academics, and individuals. Responses were received from two Monitoring Group members.⁴
9. In May 2022, the IAASB held the third and final Paris conference to discuss and explore how to move forward in progressing the ISA for LCE. The event produced great discussions on the feedback to the ED-ISA for LCE and possible options for moving forward. Over 130 people from more than 30 countries joined the conference either in person in Paris or virtually and afterwards the IAASB issued a [publication](#) highlighting the key takeaways.⁵

Exposure Draft of Proposed Part 10, Audits of Group Financial Statements of the Proposed ISA for LCE

10. In the ED-ISA for LCE, audits of group financial statements (group audits) were excluded from the scope of the standard. This was done because the IAASB, on balance, had the view that group audits inherently exhibited characteristics of complexity within an entity and, consistent with other areas of complexity, had not been contemplated in the design of the standard. The IAASB was open to reconsider the decision to exclude group audits based on stakeholder feedback and included a

³ The mapping documents illustrated how the requirements from the ISAs have, or have not, been incorporated within the ED-ISA for LCE.

⁴ The Monitoring Group comprises the Basel Committee on Banking Supervision, the European Commission, the Financial Stability Board, the International Association of Insurance Supervisors, the International Forum of Independent Audit Regulators (IFIAR), the International Organization of Securities Commissions (IOSCO) and the World Bank. Responses to ED-ISA for LCE were received from IFIAR and IOSCO.

⁵ Feedback from the comment letters to the ED-ISA for LCE, together with responses to the online survey and input from the third Paris conference, were considered in the Board's deliberations post-exposure in revising and finalizing the text of the standard. Board materials and minutes of meetings are available on the [Audits of LCEs project webpage](#).

specific question in the ED-ISA for LCE regarding whether group audits should be excluded from (or included in) the scope of the ISA for LCE.

11. Respondents to the ED-ISA for LCE along with participants of outreach activities expressed strong support for the inclusion of group audits. Therefore, the IAASB reconsidered its decision to exclude group audits from the scope of the ED-ISA for LCE, and in its June 2022 meeting the IAASB decided to include group audits in the scope of the ISA for LCE. As the ED-ISA for LCE included a specific prohibition that excluded all group audits, it did not include any requirements or Essential Explanatory Material (EEM) related to group audits. Therefore, the IAASB subsequently developed requirements in this area which had not previously been exposed for public comment.
12. At its December 2022 meeting, the IAASB approved the [Exposure Draft, Proposed Part 10, Audits of Group Financial Statements of the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities and Proposed Conforming Amendments](#) (ED-ISA for LCE-Group Audits). ED-ISA for LCE-Group Audits was issued on January 24, 2023, and closed for comment on May 2, 2023.
13. In total, 60 comment letters were received on ED-ISA for LCE-Group Audits, including from regulators and audit oversight authorities, NSS, accounting firms, public sector organizations, member bodies and other professional organizations, and individuals.

Public Interest Issues

14. The table below sets out the key public interest issues identified by the IAASB in the Project Proposal and describes how they have been addressed in the ISA for LCE.

Key Public Interest Matter	Description of Key Principles to Address Identified Key Public Interest Matters	Relevant Part in the ISA for LCE
Maintaining Confidence in Financial Reporting of LCEs	<p>Reasonable Assurance</p> <p>The ISA for LCE is designed to support the auditor in obtaining a reasonable assurance opinion in an audit. The concepts and principles used in an ISA audit were used for developing the ISA for LCE.</p>	Throughout the standard
	<p>Authority of the Standard</p> <p>The scope of the ISA for LCE is clearly set out in the Authority (Part A) to avoid the unintended use of the standard. The Authority designates limitations for using the ISA for LCE into three categories:</p> <ul style="list-style-type: none"> • Specific classes of entities for which the use of the ISA for LCE is prohibited; • Qualitative characteristics that describe an LCE, and if not exhibited by an entity would ordinarily preclude the use of the ISA for LCE for the audit of the financial statements of that entity; and 	Part A

Key Public Interest Matter	Description of Key Principles to Address Identified Key Public Interest Matters	Relevant Part in the ISA for LCE
	<ul style="list-style-type: none"> Quantitative thresholds to be determined by legislative or regulatory authorities or relevant local bodies with standard-setting authority in each jurisdiction. <p>In determining the appropriate use of the ISA for LCE, all three categories are to be considered.</p>	
	<p><i>Qualitative standard-setting characteristics:</i>⁶ The overall outcome of reasonable assurance and the Authority of the standard encapsulate <i>completeness</i> in reflecting the results of the broad information-gathering, outreach and consultations that informed the project and <i>consistency</i> with the priorities established to undertake the project based on the assessment of public interest and stakeholder needs. In addition, the <i>scope</i> of the standard is designed to support the <i>scalability and proportionality</i> of the ISA for LCE by clearly describing the typical nature and circumstances of an LCE.</p>	
Helping Auditors of LCEs Undertake Consistent, Effective, and High-Quality Audits	<p>Risk-Based Approach</p> <p>A risk-based approach is taken by incorporating basic concepts used in the ISAs, including:</p> <ul style="list-style-type: none"> The use of objectives; Using the core ISA requirements and concepts as a base for establishing the work effort of the auditor; The need to obtain sufficient appropriate audit evidence to support the audit opinion; The use of materiality to focus the auditor’s efforts and to evaluate misstatements; and Using the audit risk model (i.e., applying the concepts of inherent risk, control risk and detection risk). 	Part 1 to Part 10
	<p>Professional Judgment and Professional Skepticism</p> <p>The underlying concept of professional judgment and professional skepticism applies in the same way as it would in an ISA audit. Some of the changes made to the ISAs to enhance the auditor’s exercise of professional skepticism, for example around</p>	Throughout the standard

⁶ The Project Proposal for the development of the ISA for LCE was approved in December 2020 and preceded action by the IAASB to commence implementing the Public Interest Framework that was published as part of the Monitoring Group recommendations (July 2020), [Strengthening the International Audit and Ethics Standard-Setting System](#). Nevertheless, the IAASB has provided an indication in this table of the qualitative standard-setting characteristics of the Public Interest Framework that are of most relevance to the standard-setting actions in relation to each of the key public interest matters. This does not follow to same format or level of detail than in projects that were approved in 2021 or thereafter for the reason stated.

Key Public Interest Matter	Description of Key Principles to Address Identified Key Public Interest Matters	Relevant Part in the ISA for LCE
	<p>corroborative or contradictory audit evidence, have also been incorporated within the ISA for LCE.</p> <p>Relevant Ethical Requirements and Quality Management</p> <p>The ISA for LCE has been developed:</p> <ul style="list-style-type: none"> • Requiring that the auditor comply with relevant ethical requirements, including those pertaining to independence, for financial statement audit engagements. • On the basis that the auditor performing the engagement is a member of a firm that is subject to the IAASB’s ISQMs,⁷ or national requirements that are at least as demanding. <p><i>Qualitative standard-setting characteristics:</i> The above approach applied, and the matters addressed provide an appropriate foundation to ensure <i>relevance</i> through the development of principles-based requirements to enable the overall objectives of the auditor to be achieved, and in maintaining <i>coherence</i> with the overall body of the IAASB standards, in particular with ISAs.</p>	<p>Part 1 and Part 3</p>
<p>Being Responsive to Stakeholder Needs</p>	<p>Separate Standalone Standard</p> <p>The ISA for LCE is developed as a separate standalone standard focusing on addressing the challenges in applying the ISAs in an audit of an LCE. The separate standard includes the requirements for an audit of an LCE based on the core requirements of the ISAs and presented in a more understandable and straightforward way.</p> <p>Proportionate Requirements</p> <p>The requirements in the ISA for LCE have been designed to be proportionate to the typical nature and circumstances of an audit of an LCE and requirements that address complex matters or circumstances are not included in the ISA for LCE.</p> <p>Essential Explanatory Material</p> <p>The ISA for LCE includes guidance as EEM where it has been considered that explanatory material is crucial to support the requirements or concepts used.</p>	<p>Throughout the standard</p> <p>Part 1 to Part 10</p> <p>Throughout the standard</p>

⁷ International Standard on Quality Managements (ISQMs) include: ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* and ISQM 2, *Engagement Quality Reviews*. In addition, ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*, has been used in developing Part 3 of the ISA for LCE.

Key Public Interest Matter	Description of Key Principles to Address Identified Key Public Interest Matters	Relevant Part in the ISA for LCE
	<p><i>Qualitative standard-setting characteristics:</i> The standalone nature of the standard supports the clarity of its <i>scope</i> in terms of what should be complied with when the ISA for LCE is appropriate for use. The <i>scalability and proportionality</i> of the requirements reflect <i>consistency</i> with identified needs for developing a solution to address the challenges and issues related to audits of LCEs, while being <i>comprehensive</i> to enable the achievement of the auditor’s objectives and limiting the extent to which there are exceptions to principles.</p>	
<p>Promoting a More Consistent Application of The Auditing Standards to Audits of LCEs</p>	<p>Structure of the ISA for LCE</p> <p>The structure of the standard follows the flow of an audit engagement by grouping the requirements and related EEM into “Parts” and placing the “Parts” in order of the flow of an audit engagement.</p> <p>The same structure has been used within each Part and each Part includes an introductory box, objective(s), requirements, EEM, specific communication requirements (where applicable) and specific documentation requirements (where applicable).</p>	<p>Throughout the standard</p>
	<p>Drafting Principles</p> <p>The ISA for LCE is drafted to present required actions as clear, understandable and stated as simply and concisely as practical. The use of long or multiple layers of bullet lists is avoided as this may be perceived as a checklist rather than a principles-based approach. Material that is lengthy, educational or background in nature has not been included. In addition, the IAASB has focused on:</p> <ul style="list-style-type: none"> • Simpler numbering. • Limiting the number of “sub-bullets” where appropriate. • One thought per paragraph. • Combining requirements from the ISAs where appropriate, and avoiding repetition. • Articulating the requirements in a clearer and simpler way where feasible. • The CUSP drafting principles and guidelines⁸ were applied. 	<p>Throughout the standard</p>

⁸ CUSP drafting principles and Guidelines was developed as another workstream (i.e., ISA Focused Workstream) which addresses the CUSP issues in relation to the ISAs more broadly in order to address challenges that have been identified in applying the ISAs, for audits of all types of entities, including audits of LCEs.

Key Public Interest Matter	Description of Key Principles to Address Identified Key Public Interest Matters	Relevant Part in the ISA for LCE
	<p><i>Qualitative standard-setting characteristics:</i> The structure of the ISA for LCE and the drafting principles applied contribute to <i>clarity and conciseness</i> that enhance understandability and limit the likelihood of differing interpretations. This, together with the other actions described in this table, support the <i>implementability</i> of the ISA for LCE as a global standard for audits of financial statements of LCEs.</p>	
	<p>Supplementary Guidance</p> <p>The ISA for LCE will be supported by two supplemental guides:</p> <ul style="list-style-type: none"> • The Authority Supplemental Guide assists with the application of the Authority by legislative or regulatory authorities or relevant local bodies with standard setting authority, firms and auditors. • The Reporting Supplemental Guide provides further guidance and examples on modifications to the auditor's report, including a number of full illustrative reports. This guide also addresses changes to the auditor's report for emphasis of matter paragraphs, other matter paragraphs, as well as further guidance as to which reports may be appropriate in various circumstances. 	<p>The Authority Supplemental Guide</p> <p>The Reporting Supplemental Guide</p>

Section B – Reasonable Assurance

Background

15. The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements of an entity. The auditor achieves this by obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level in the circumstances of the engagement, and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. Reasonable assurance, in the context of an audit, provides a high, but not absolute, level of assurance.
16. When developing the separate standard for auditing LCE's, the IAASB consulted on and discussed the appropriate level of assurance that would be appropriate for the intended users of the financial statements of an LCE, including whether another kind of engagement, or a different level of assurance, should be considered.
17. The IAASB's stakeholders were of the view that a separate standard should contain requirements that will result in a reasonable assurance opinion, and that this opinion should be in the form of an audit opinion. Accordingly, the IAASB's intentions have been to develop a separate auditing standard that will enable the auditor to obtain reasonable assurance as a basis to express an audit opinion on the financial statements, using the concepts and principles used in an audit conducted in accordance with the ISAs.

Summary of Comments Received on Exposure

18. There were respondents to the ED-ISA for LCE who were not supporting the development of a separate standard. It was noted that the existence of a separate standard that provides the same level of (reasonable) assurance as the ISAs would be confusing for both auditors and users of financial statements, and in some cases that users may view an audit under the separate standard as “lower quality” or less robust. Concerns were raised regarding the potential fragmentation of the audit market (offering “two-tiers” of audits). Both Monitoring Group members that responded to the ED-ISA for LCE were of the view that the draft standard could cause confusion for stakeholders (including over what level of assurance is provided) and widen the expectation gap that is perceived to exist between auditors’ responsibilities and stakeholders’ expectations.
19. Certain respondents who did not support the development of a separate standard also suggested that the creation of guidance could be an alternative option and that such guidance could utilize the work already performed on the ED-ISA for LCE as the basis.
20. Respondents were of the view that the ED-ISA for LCE achieved reasonable assurance, but certain respondents questioned if all the requirements that were included in the ED-ISA for LCE were needed in an audit of an LCE. In contrast, a regulator and other NSS expressed concern that ED-ISA for LCE may not achieve reasonable assurance due to certain requirements from the ISAs being omitted, and due to the lack of comprehensive application material to support implementation of requirements.

IAASB Decisions

21. In its deliberations about whether or not to continue with the project, the IAASB noted that the public interest issues that were identified through the Discussion Paper and which supported the need for the project, as described in the Project Proposal (see paragraph 5), would not be addressed if the project is not completed. When agreeing to the workstream to develop a separate standard, the IAASB identified an urgent need to have an international solution to address issues related to audits of LCEs, particularly as jurisdictions increasingly develop their own standards and commence other initiatives in this area (this ‘fragmentation’ would not be in the public interest).
22. As part of the adoption and implementation support activities for the ISA for LCE, the IAASB is planning to liaise with IFAC, NSS and professional accountancy organizations, reach out to key stakeholders, and develop materials which explain the benefit of using the ISA for LCE. This will include key messages on what the standard aims to achieve, including facilitating the performance of a high-quality audit that is appropriate in the circumstances of a LCE and enabling the auditor to issue a reasonable assurance opinion.
23. Regarding the comments on the work performed to reach reasonable assurance as mentioned in paragraph 20, the IAASB addressed the issues by making changes to the standard based on the specific comments received (see sections below). For example, being more specific about the scope of entities for which the standard can be used helped the IAASB to determine the appropriate requirements for the standard.

Section C – Standalone Nature of the ISA for LCE

Background

24. The IAASB developed the ED-ISA for LCE as a standalone “self-contained” standard. The standard is separate from the ISAs with no intended need to directly reference back to the requirements or

application material in the ISAs in its application. This means that if there is a circumstance that has not been contemplated in the design of the ED-ISA for LCE as addressed in the Authority of the standard (Part A), relevant ISA requirements cannot be applied in order to address the circumstance.

25. Also, if matters of complexity not contemplated by the standard have been identified at either the acceptance and continuance phase or during the audit and the ISA for LCE is no longer appropriate to use, the audit will need to be transitioned to use the ISAs or other applicable auditing standards.

Summary of Comments Received on Exposure

General

26. There was broad support for the standalone nature of the standard with respondents agreeing with the approach, or agreeing but noting some concerns that would need to be addressed (this also is in the context of the matters raised in Section B, above).

Transitioning to the ISAs

27. A Monitoring Group member expressed concern that switching to the ISAs part-way through an audit might be difficult and may lead to additional time when compared to applying ISAs at the outset of the audit. The Monitoring Group member also noted concern that auditors would not be able to identify complex situations without an understanding of the ISAs.
28. Other respondents noted that even where the initial evaluation to use the standard was performed appropriately, areas of complexity may still be discovered, or occur unexpectedly during the audit, (e.g., the discovery of an isolated complex accounting estimate) that may not be deemed pervasive to the complexity of the entity as a whole in that scenario. In that scenario, the auditor would need to transition to the ISAs, which was viewed as burdensome by respondents.
29. To address the challenges for transitioning to the ISAs respondents suggested:
 - (a) To allow the use of ISAs or additional “modules.” These modules may contain specific procedures for a more complex topic or area that could be “added on” where needed. The use of “modules” will prevent transitioning to the ISAs when subsequent to engagement acceptance or continuance, one complex item occurs.
 - (b) To change the Authority with a more clearly defined scope so it will be less likely that the ISA for LCE is subsequently judged as inappropriate. Also, there were suggestions to make changes to the Authority so that a single complex issue will not lead to the need to transition to ISAs.
 - (c) Additional guidance and clarifications to assist with the transition from the ISA for LCE to the ISAs. Such guidance and clarifications included differences between the ISA for LCE and ISAs and the work required in the transition process.

IAASB Decisions

General

30. Consistent with the overall support for the approach expressed by respondents, the IAASB decided that it is appropriate to develop the ISA for LCE to be a standalone “self-contained” standard (i.e., with all the requirements relevant to the typical nature and circumstances of an audit of an LCE included, and with no intended need to reference back to the ISAs). The IAASB noted this approach

would aid understandability of the standard and transparency about its use, and avoid unintended practical issues as described in the Explanatory Memorandum to the ED-ISA for LCE.

31. The IAASB discussed whether a statement in the ISA for LCE is needed to make clear that referring to the ISAs for additional guidance to help perform procedures would not be precluded. However, the IAASB noted that auditors could potentially refer to various sources of guidance in undertaking an audit engagement. The IAASB is of the view that a statement referring to the ISAs may be perceived to contradict the objective of creating a standalone standard and could lead to the perception that the ISAs are a superior source of guidance and therefore decided not to include such statement.

Transitioning to the ISAs

32. The IAASB noted respondents' comments on allowing reference to the ISAs or additional "modules" may help the burden to transition to ISAs. As the IAASB decided that it is appropriate for the ISA for LCE to be a standalone standard, it therefore does not allow the use of the ISAs for matters or transactions that are not addressed by the ISA for LCE. In addition, to support consistent application of the standard the IAASB decided not to add "modules."
33. The IAASB considered circumstances where a single area of complexity may occur that may not be deemed pervasive to the complexity of the entity as a whole and where, other than for the one area of complexity, it may still be appropriate to use the ISA for LCE. The IAASB had the view that accounting estimates are the most common area where this could occur. The IAASB noted that one or a few complex accounting estimates are not necessarily an indicator of complexity for the entity more broadly. Therefore, the IAASB updated the Authority regarding accounting estimates in the entity's financial statements (see Section D – Authority, paragraphs 43, 44 and 51 to 54) and added requirements related to more complex accounting estimates in the ISA for LCE (see Section G – Other, paragraphs 117 and 123).
34. Acknowledging respondents' comments, the IAASB was of the view that guidance is needed to support the transition from the ISA for LCE to the ISAs. The IAASB noted that this guidance is best placed in an implementation guide (which is planned to be released in 2024) to keep the ISA for LCE standalone and succinct.

Section D – Authority

Background

35. The Authority sets out the scope of the standard. To assist in the application of the Authority, the IAASB has developed the Authority Supplemental Guide.
36. To obtain a balance between being too prescriptive and allowing too much judgment in determining whether the ISA for LCE is appropriate to use, the IAASB has explained the scope in the Authority of the ED-ISA for LCE through prohibiting the use of the standard for certain classes of entities (i.e., specific prohibitions), and further describing those qualitative characteristics of an entity that would make the standard inappropriate to use (i.e., qualitative characteristics).

Summary of Comments Received on Exposure

37. Although there was support by respondents that the Authority as set out in Part A of the ED-ISA for LCE is implementable, many respondents expressed concerns that the Authority as described is unclear. The most significant concerns expressed, including by two Monitoring Group members, were

that the Authority is too open (i.e., needs to be more precise) and involves too much judgment and will therefore lead to inconsistent use of the standard.

Specific Prohibitions

38. Respondents supported the alignment with the final revised International Ethics Standards Board for Accountants (IESBA), *Definitions of Listed Entity and Public Interest Entity* in the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the IESBA Code) for consistency between the standards.
39. Respondents noted some concerns about the way that entities with public interest characteristics are described within the draft standard. Especially related to what “public interest characteristics” may mean in different jurisdictions, as well as whether it broadly applied to the public sector (i.e., is the whole public sector scoped out of the standard).
40. Regarding the exclusion of group audits from the scope of the ED-ISA for LCE, respondents were of the view that group audits should be included in the scope of the standard. Comments on group audits are explained in detail in Section F – Group Audits.

Qualitative Characteristics

41. In addition to the comments about too much judgment more generally, respondents also noted strong reservations about the subjectivity related to the qualitative characteristics described, and therefore the resulting inconsistency in application. In addition, it was noted that auditors would need an in-depth knowledge of the entity to be able to make some of these judgments.
42. It was noted that the Authority should be clearer about the criteria to be met to be considered a less complex entity and that the Authority should describe what is “in” the standard rather than what is “out” of the standard. By focusing on what is “less complex” this would drive a conscious determination about whether the entity is truly “less complex” for the purpose of using the standard.

Accounting Estimates

43. Regarding the qualitative characteristics related to accounting estimates, concerns were expressed about accounting estimates with high estimation uncertainty being excluded from the scope. It was noted that a less complex entity may have one or a few accounting estimates with high estimation uncertainty that would not necessarily affect the complexity of the entity as a whole and that these entities should be able to use the standard.
44. Respondents to the ED-ISA for LCE also noted that even where the initial evaluation to use the standard was performed appropriately, areas of complexity (commonly relating to accounting estimates) may still be discovered or occur unexpectedly during the audit. However, these areas of complexity may not be deemed pervasive to the complexity of the entity as a whole (see paragraph 28).

Quantitative Thresholds

45. The IAASB was encouraged to include quantitative thresholds to help users of the standard and others to understand the scope of the standard. Responses received also suggested that such boundaries would help clarify the scope of the standard and narrow it appropriately. However, there

were respondents that did not support establishing quantitative thresholds at a global level but rather leaving this to individual jurisdictions.

IAASB Decisions

Specific Prohibitions

46. The IAASB aligned the classes of entities with the classes in the IESBA's revisions to the *Definitions of Listed Entity and Public Interest Entity* in the *IESBA Code*. The IAASB noted that the IESBA's public interest entity definition for the purposes of the IESBA Code serves a different purpose than the description of classes of entities that may exhibit public interest characteristics in the ISA for LCE. The former imposes differential independence requirements that apply to the audit firm or auditor for audits of financial statements of public interest entities, and the latter describes classes of entities for which the use of ISA for LCE may not be appropriate. Notwithstanding that they serve a different purpose, the IAASB acknowledged respondents' comments that regardless of the purpose, having differing descriptions may cause confusion, and therefore noted the importance of alignment to the greatest extent possible between the Authority and the IESBA Code.
47. The IAASB recognized the issues raised by respondents, in particular the concerns that it was perceived that all public sector entities may be excluded from the scope of the standard. The IAASB agreed that specific guidance for public sector entities is needed in the standard and the IAASB re-ordered and updated relevant paragraphs to clarify which entities are prohibited from using the standard. This also better supports the statement in the Preface to the ISA for LCE that the standard is relevant to engagements in the public sector, when the considerations set out in the Authority in Part A apply (see also paragraphs P.18 to P.21 of the Preface).

Qualitative Characteristics

48. The IAASB considered the comments on qualitative characteristics together with the overarching comment that the standard is not clear about the types of entities which the standard has been designed for. The IAASB recognizes that there is a range of entities that could use the ISA for LCE but agreed that this "range of entities" should be described so that there is a common understanding by all stakeholders about the types of entities for which the standard is designed (at least in terms of establishing a global baseline). Therefore, the IAASB updated the qualitative characteristics by incorporating the description of a "typical LCE" that describes the "range of entities" the standard is designed for.
49. The IAASB also updated the qualitative characteristics to describe what is "less complex" rather than what is "more complex". For example, the qualitative characteristics for organizational structure and size is described "The organizational structure is relatively straightforward, with few reporting lines or levels and a small key management team (e.g., 5 individuals or less)."
50. For qualitative characteristics to provide more clarity and specificity, the IAASB included numerical indicators as examples (e.g., number of members in management team, number of employees involved in financial reporting roles etc.) in the revised qualitative characteristics where relevant.

Accounting Estimates

51. The IAASB acknowledged that accounting estimates vary widely in nature, and the complexity of accounting estimates are subject to, or affected by inherent risk factors such as estimation

uncertainty,⁹ complexity¹⁰ or subjectivity.¹¹ The IAASB's view is that, in general, it is not expected that the typical nature and circumstances of an LCE would have accounting estimates with high estimation uncertainty, complexity and subjectivity.

52. The IAASB considered using inherent risk factors as qualitative characteristics. However, the IAASB recognized that it may be difficult to assess the complexity (such as evaluating the degree of the inherent risk factors taking into account the facts and circumstances of an individual accounting estimate) at the acceptance or continuance phase. Respondents to ED-ISA for LCE noted that the Authority should be easy to understand and implement. Therefore, the IAASB changed the qualitative characteristics related to accounting estimates using more direct language, focusing on the methods, models, assumptions and data used for making accounting estimates. The IAASB believes that using terminology that is widely used and understood would be easier for auditors to understand.
53. The IAASB used the word “ordinarily” in the qualitative characteristic to indicate that the focus is not on the isolated or “one-off” accounting estimates or transactions that do not otherwise increase the complexity of the entity as a whole. The IAASB believes this would also help address respondents' concerns regarding the need to transition from the ISA for LCE to the ISAs when additional matters and circumstances are discovered after the initial evaluation to use the ISA for LCE (e.g., for a one-off transaction that the entity has entered in to). In such a scenario, the auditor would need to consider if the entity is still an LCE. However, there would be no need to “automatically” transition out of the ISA for LCE during the engagement because of the complexity specific to the accounting estimate.
54. Requirements and EEM related to accounting estimates in Part 7 were revised to reflect the above changes to the qualitative characteristics of the Authority (see Section G – Other, paragraphs 117 and 123).

Quantitative Thresholds

55. The IAASB considered respondents' suggestions to include quantitative thresholds in the Authority. While the IAASB noted that complexity is not directly linked to size, it was acknowledged that the use of quantitative thresholds may serve as an additional “safeguard” to limit the range of entities perceived to be within the scope of the standard. Also, the IAASB deliberated whether the quantitative thresholds should be set at an international level or at a jurisdictional level. The IAASB is of the view that quantitative thresholds cannot be set at a global level because of the differing nature and circumstances of each jurisdiction that may use the standard.
56. The IAASB added in the Authority the expectation for legislative or regulatory authorities or relevant local bodies with standard-setting authority to determine quantitative thresholds for their jurisdiction. In addition, EEM was added to describe how quantitative measures are relevant to the use of the standard and how existing thresholds may be used as a point of reference. The EEM refers to the definitions of “small enterprise” of the European Commission and the South African Department of

⁹ Estimation uncertainty is the susceptibility to an inherent lack of precision in measurement. It arises when the required monetary amount for a financial statement item that is recognized or disclosed in the financial statements cannot be measured with precision through direct observation of the cost or price.

¹⁰ Complexity is the inherent complexity in the process of making an accounting estimate, before consideration of controls, which gives rise to inherent risk.

¹¹ Subjectivity (i.e., the subjectivity inherent in the process of making an accounting estimate, before consideration of controls) reflects inherent limitations in the knowledge or data reasonably available about valuation attributes.

Small Business Development as examples of benchmarks that may be appropriate. The EEM indicates that these definitions may be adjusted as appropriate for the circumstances of the individual jurisdiction when determining quantitative thresholds for their jurisdiction. The IAASB decided it would be appropriate to include multiple examples to better support the legislative or regulatory authorities or relevant local bodies with standard-setting authority when determining their quantitative thresholds.

Other

57. The IAASB removed the roles and responsibilities of firms and auditors (i.e., paragraphs A.12. to A.14. in the ED-ISA for LCE) to make the Authority more succinct and understandable. The IAASB is of view that such roles and responsibilities would be better placed in the Authority Supplemental Guide, noting that this would help focus Part A on the role of the jurisdiction or those with standard-setting authority only.

Section E – Proportionality of the Standard

Background

58. Similar to the ISAs, the ED-ISA for LCE sets out requirements that, taken together, would fulfill the overall objective of the auditor (i.e., to express an opinion based on the audit evidence obtained). Compliance with these requirements is intended to support how the auditor obtains sufficient appropriate audit evidence as the basis for the auditor's reasonable assurance opinion. Therefore, to develop a standard that will achieve reasonable assurance, the IAASB has used the requirements in the ISAs as the basis for the requirements within ED-ISA for LCE.
59. The IAASB agreed that some guidance was needed for implementation of the requirements. However, a key objective of the design of the ED-ISA for LCE was to keep the standard concise and succinct, mindful of the typical nature and circumstances of an LCE and that the standard does not address complex matters or circumstances. Therefore, the IAASB also agreed to limit this material to where it is essential to understanding or applying a requirement(s). Accordingly, ED-ISA for LCE included EEM where it has been considered that explanatory material is crucial to support the requirements or concepts used.

Summary of Comments Received on Exposure

General

60. On balance, respondents agreed with the approach to using the core ISA requirements and concepts as the basis for establishing the work effort of the auditor when performing an audit of an LCE. Across stakeholders who both agreed or disagreed with the approach of using the ISAs as a base, the most frequent theme identified as a concern was that the standard needed to be further differentiated from the ISAs to provide value. A concern expressed by respondents was that the content of the ED-ISA for LCE was so closely aligned with the requirements of the ISAs that there was little difference, and therefore benefit, to using the standard.
61. Regarding the content of the EEM included in the ED-ISA for LCE, there was, on balance, support for the approach but respondents noted that content could be more proportionate or specific to an LCE or further simplified. Also, there were mixed views regarding the sufficiency of the EEM. On one hand, respondents noted that there was very little application material from the ISAs included which

may lead to inconsistent application of requirements. On the other hand, respondents supported the overall sufficiency of guidance that was included in the body of the draft standard, noting additional guidance may also be provided outside of the standard (e.g., through implementation or non-authoritative guidance).

62. There were a few areas identified by respondents where the requirements and EEM could be further differentiated from the ISAs and be proportionate to the typical nature and circumstances of an audit of an LCE:
- Audit Evidence and Documentation (Part 2);
 - Engagement Quality Management (Part 3);
 - Risk Identification and Assessment (Part 6); and
 - Accounting Estimates (Part 7).

Audit Evidence and Documentation (Part 2)

63. Respondents noted that the documentation requirements were too extensive and that there was no real differentiation between what would be documented using the ISAs and the ED-ISA for LCE. Respondents made suggestions such as adding guidance to help auditors better understand how to apply documentation requirements in an appropriately proportional manner. Also, it was suggested that the ISA for LCE should be explicit that only relevant matters should be documented and when a requirement has been considered not applicable, the auditor is not required to explain and document why the requirement was not applicable.
64. Respondents also questioned if all of the specific documentation requirements included in each Part were needed or if the general documentation requirements contained in Part 2 were sufficient given they encompass all significant matters and judgments in the audit. They noted that specific documentation requirements were often procedural in nature.

Engagement Quality Management (Part 3)

65. Respondents noted that the requirements and EEM in Part 3 could be more proportionate as many LCE audits are carried out entirely by the engagement partner (who may be a sole practitioner). To reflect this practice, respondents suggested to restructure Part 3 or some of its requirements. However, few specific suggestions were received on how to do so.

Risk Identification and Assessment (Part 6)

66. Respondents noted that Part 6 could be more streamlined and “scalable” (proportionate) to audits of LCEs while not compromising audit quality. In particular, respondents noted that the entity’s system of internal control is generally straightforward and less formalized in an LCE and that some requirements in Part 6 would not be relevant for the typical nature and circumstances of an LCE.
67. The most prominent areas where the respondents questioned whether the requirements were appropriately proportionate to the typical nature and circumstances of an audit of an LCE included:
- (a) Obtaining an understanding of the entity’s system of internal control;
 - (b) The identification and assessment of risks of material misstatement;
 - (c) Services provided by a service organization; and

- (d) Fraud, including the presumption that there are risks of fraud in revenue recognition.

Accounting Estimates (Part 7)

68. Respondents noted that the complexity of requirements related to accounting estimates could be reduced given that LCEs often don't have complex accounting estimates.

IAASB Decisions

General

69. The IAASB acknowledged the general support for using the ISAs as a basis, while also recognizing the strong view that the ED-ISA for LCE needed to be further differentiated from the ISAs in order to meet stakeholder expectations. In considering the responses to ED-ISA for LCE and the views of participants at the Third Paris Conference, the IAASB was of the view that there was a greater call for further consideration of specific areas, and not to rewrite the standard more holistically. Accordingly, the IAASB focused on revisions in those areas identified as most prominently affected by respondents' concerns, including Parts 2, 3 and 6.
70. With respect to the EEM, considering that the ISA for LCE is designed to be proportionate to the typical nature and circumstances of an audit of an LCE and that the standard will be accompanied by implementation and supplemental guides, the IAASB decided that the overall approach to EEM within the standard does not need to change. The IAASB acknowledged that there were areas identified where further EEM (or revisions to existing EEM) may be appropriate to enhance the application of a requirement. Those identified were addressed when revising each of the Parts.

Audit Evidence and Documentation (Part 2)

71. The IAASB noted that the most significant areas of concern for respondents (i.e., areas where the level of documentation was not proportional) related to Parts or matters that the IAASB had already identified as priority areas for revisions (e.g., Part 6). In revising these areas, the IAASB made requirements more proportional and specifically reduced the granularity of many of these requirements. The IAASB was of the view that more proportional requirements would result in the corresponding documentation being more proportional, which would help address respondents' concerns regarding documentation.
72. The IAASB also considered the suggestions from respondents for additional guidance to help clarify how to apply the general documentation requirements and added further EEM in Part 2 based on application material from ISA 230.¹² On the other hand, the IAASB noted that the documentation of non-relevant requirements discussed in paragraph 63 is not an LCE specific issue and did not believe that it was appropriate to include an explicit statement in the ISA for LCE regarding this matter.
73. In discussing the respondents' comments on whether specific documentation requirements are needed, the IAASB considered Chapter 13 of the CUSP Drafting Principles and Guidelines and how it might apply to an audit of an LCE. Based on this, the IAASB did not change its decision to include specific documentation requirements in individual Parts, when relevant. These specific documentation requirements are to be applied in addition to the general documentation requirements as set out in Part 2.

¹² ISA 230, *Audit Documentation*

Engagement Quality Management (Part 3)

74. The IAASB made Part 3 more proportionate to the typical nature and circumstances of an audit of an LCE by:
- (a) Introducing separate sections for when there is more than one member in the engagement team. To differentiate these requirements (and related EEM), they are placed in a text box with the header “Considerations When There Are Members of the Engagement Team Other Than the Engagement Partner.” The IAASB initially introduced the separate sections only in Part 3 and later decided to include them throughout the standard. The purpose of the text boxes is explained in paragraph P.14. of the Preface.
 - (b) Deleting requirements and EEM that were deemed repetitive and re-ordering the paragraphs to have a more logical flow.

Risk Identification and Assessment (Part 6)

75. To address respondents’ comments to make Part 6 more proportionate, the IAASB had the following questions in mind:
- (a) Has the requirement been identified as a specific “pain-point” requiring revision by respondents and if so, why did respondents not think it would be appropriate for the typical nature and circumstances of an LCE?
 - (b) Are all the matters addressed in the requirement relevant to the typical nature and circumstances of an LCE?
 - (c) Would every matter in a requirement always need to be understood and documented to achieve the desired outcome or could some matters be areas that could be considered depending on its relevance to the entity and the audit?
76. The IAASB revised Part 6 which included repositioning requirements, deleting requirements and repurposing requirements as EEM. The key questions in paragraph 75 helped the IAASB to consider revisions to requirements depending on the nature and content of each requirement. For example, focusing on the outcome to be achieved, the detailed list of matters to be understood in the requirement in paragraph 6.3.6.(a)–(d) of the ED-ISA for LCE was repurposed as EEM (see paragraph 6.3.7. in the final text of the ISA for LCE) as the IAASB was of the view that not all these matters would always be relevant for the typical nature and circumstances of an LCE.
77. The IAASB also made changes to address the specific comments provided by respondents, including:
- (a) *Obtaining an Understanding of the Entity’s System of Internal Control* – The evaluation of the entity’s risk assessment process and entity’s process for monitoring the internal control system are changed to an inquiry as the IAASB was of the view that, for an LCE, the relevant outcomes could be achieved through inquiry (see paragraph 6.3.1. (a) and (c) of the ISA for LCE). The requirement related to information system and communication are updated to be more direct and focus on preparation of financial statements (see paragraphs 6.3.8. and 6.3.10. of the ISA for LCE).
 - (b) *The identification and assessment of risks of material misstatement* – The ED-ISA for LCE included separate requirements for the identification and assessment of the risks of material

misstatements. To address respondents' concerns on proportionality, the IAASB has combined the identification and assessment of risks of material misstatement into a single requirement (see paragraph 6.4.1. of the ISA for LCE). In addition, the IAASB combined this requirement with the requirement to determine the relevant assertions and the related significant classes of transactions, account balances and disclosures given that the process is iterative and typically performed together in an audit of an LCE. Requirements to understand inherent risk factors have been removed and instead the concepts are included in EEM.

- (c) *Services provided by a service organization* – The requirements and EEM related to service organizations were enhanced by clarifying:
- (i) In the Authority and Part 6 how a report on the description and design of controls at the service organization (a type 1 report), or on the description, design and operating effectiveness of controls at the service organization (a type 2 report) may be used when applying the ISA for LCE. The Authority explains that the ISA for LCE does not include any requirements addressing the auditor's use of a type 1 or type 2 report as audit evidence about the design and implementation of controls at the service organization, or a type 2 report as audit evidence that controls at the service organization are operating effectively. The IAASB is of the view that this would ordinarily not be applicable to an audit of an LCE. However, the IAASB was of the view that the auditor may use a type 1 or type 2 report in obtaining an understanding of the entity's system of internal control and clarified that in the EEM under paragraph 6.3.11.
 - (ii) What the auditor is required to obtain an understanding of when the entity uses the services of a service organization and those services are relevant to the entity's process to prepare its financial statements. To do so, the IAASB added content from ISA 402¹³ in paragraph 6.3.11.
 - (iii) In Part 7 (EEM related to paragraph 7.4.28), which further audit procedures the auditor may consider when the auditor cannot obtain sufficient appropriate audit evidence concerning the relevant financial statement assertions at the entity. These examples are based on examples in ISA 402.
- (d) *Fraud* – The IAASB considered making changes to the presumption that there are risks of fraud in revenue recognition and revise the requirement to instead require an active determination of potential fraud risks resulting from types of revenue, revenue transactions or assertions. However, the IAASB noted that the change would be inconsistent with ISA 240¹⁴ and the direction of the IAASB in its project to revise ISA 240. Therefore, it was decided not to depart from the base requirement in ISA 240 and to retain the presumption.

78. In addition, to address comments from respondents to the ED-ISA for LCE, the IAASB added EEM, or clarified existing EEM, in several areas, in particular to describe how requirements may be applied in circumstances typical of an LCE. The IAASB was of the view that, although the volume of EEM may be greater than in other parts of the ISA for LCE, it is appropriate as risk identification and assessment was identified as a challenging area by respondents and is fundamental to an audit.

¹³ ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

¹⁴ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

Accounting Estimates (Part 7)

79. Accounting estimates were highlighted as an area where considerations were needed in relation to the qualitative characteristics in the Authority (see Section D – Authority). Therefore, the changes made to the requirements and EEM related to accounting estimates were more focused to reflect the changes made to the Authority.

Section F – Group Audits

Background

80. In the ED-ISA for LCE, group audits were excluded from the scope of the standard. This was done because the IAASB, on balance, was of the view that group audits inherently exhibited characteristics of complexity within an entity and had not been contemplated in the design of the standard. However, respondents to the ED-ISA for LCE along with participants of outreach activities expressed strong support for the inclusion of group audits. Therefore, the IAASB decided to include certain group audits in the scope of the ISA for LCE and exposed ED-ISA for LCE-Group Audits for public comment.
81. ED-ISA for LCE-Group Audits included as a specific prohibition to the use of the ISA for LCE, group audits where component auditors are involved. This was reflecting the overall pervasive theme heard from respondents to the ED-ISA for LCE that the scope of the standard should better reflect the typical nature and circumstances of an LCE for which the standard is intended to be designed for. On the other hand, the IAASB did acknowledge that the use of component auditors may sometimes be due to a practical consideration rather than due to the complexity of the group itself. The IAASB added an exemption to allow the component auditor's involvement in limited circumstances in which a physical presence is needed for a specific audit procedure for the group audit (e.g., attending a physical inventory count or inspecting physical assets).
82. The IAASB was of the view that the qualitative characteristics of a less complex group and an LCE that is not a group are broadly the same. At the same time the IAASB noted that there are additional complexities for a group reflecting the group specific circumstances and added qualitative characteristics related to group audits (i.e., additional group-specific characteristics of a less complex group).
83. The group audit requirements were included in a separate Part (i.e., Part 10) rather than within each of the relevant Parts of the ISA for LCE. Similar to the other Parts, Part 10 was based on the core requirements of the relevant ISA – for Part 10 this is ISA 600 (Revised).¹⁵ The IAASB did not include requirements in ISA 600 (Revised) that relate to the involvement of component auditors and requirements which are deemed to indicate complexity that would not be typical for an LCE. In addition, requirements which were deemed to be sufficiently addressed by requirements in other parts of the ISA for LCE were not included in Part 10.

Summary of Comments Received on Exposure

84. Generally, respondents supported the requirements and EEM included in Part 10 noting that the related requirements in ISA 600 (Revised) have been appropriately integrated into the ISA for LCE.

¹⁵ ISA 600 (Revised), *Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)*

Component Auditors

85. Respondents had mixed views whether a prohibition relating to the use of component auditors should be included in the Authority of the ISA for LCE.
86. Respondents supporting the prohibition relating to component auditors were of the view that the exemption on the prohibition (i.e., the use of component auditors is not allowed other than in limited circumstances where a physical presence is needed) should remain as per the ED-ISA for LCE-Group Audits. They noted that the exemption addresses the most common situations where a component auditor is needed for specific audit procedures due to practical reasons.
87. There were also respondents that suggested expanding the exemption as there may be other situations when the use of component auditors for practical reasons is useful.

Qualitative Characteristics

88. Respondents had various comments on the group-specific qualitative characteristics. These comments included comments not supporting the inclusion of numerical indicators and suggestions to change the descriptions in “Group Structure and Activities,” “Access to Information or People” and “Consolidation Process”.

IAASB Decisions

Component Auditors

89. The IAASB believed that generally component auditors are more often used in more complex groups and that prohibiting the use of component auditors is consistent with the typical nature and circumstances of an audit of an LCE that the standard is intended to be designed for. Also, the IAASB considered the pervasive feedback on the ED-ISA for LCE that the Authority should be clearer about what the IAASB believes a “typical LCE” is, in order to be operable and accepted by regulators and other stakeholders.
90. The IAASB discussed respondents’ different viewpoints and examples to expand the exemption on the prohibition. The IAASB was of view that most of the examples would not be common for the typical nature and circumstances of an LCE or would open the exemption too much. However, the IAASB noted that some clarity was needed and changed the example to clarify that the circumstances in which a physical presence may be needed include physically inspecting assets or documents. In addition, the IAASB was of view that the Authority Supplemental Guide may provide further clarity on when the exemption may be applied.

Qualitative Characteristics

91. The IAASB noted that the inclusion of numerical indicators is in response to feedback on the ED-ISA for LCE that the Authority needed to be more specific and clearer about what the IAASB believes a “typical LCE” is. Regarding other comments on the description of the group-specific qualitative characteristics, the IAASB made changes to the descriptions of the characteristics to better reflect the typical nature and circumstances of an LCE.

Section G – Other

800-Series

Background and Summary of Comments Received on Exposure

92. Requirements relating to the ISA 800-series¹⁶ were not included in the ED-ISA for LCE as the IAASB agreed to focus on developing an auditing standard for audits of complete sets of general-purpose financial statements of LCEs first. The IAASB was of the view that the inclusion of the 800-series at a later stage would be useful.
93. Respondents generally supported the inclusion of a separate part on the ISA 800-series. However, regarding a timeline for potential inclusion of a Part on the ISA 800-series, respondents expressed mixed views. On one hand, respondents noted that such Part should be included in the ISA for LCE prior to finalization. Other respondents noted that it should only be considered at a later stage as they recognized that the IAASB should first focus on the development of the ISA for LCE for audits of general purpose financial statements.

IAASB Decisions

94. The IAASB decided not to develop requirements to address the ISA 800-series within the ISA for LCE at this time. However, the IAASB explored the possibility of an interim solution to allow use of the standard for such engagements and added wording in the Preface (paragraph P.2.) to allow use of the standard, to be adapted as necessary, to an audit of:
- (a) A complete set of special purpose financial statements; or
 - (b) An audit of a single financial statement or of a specific element, account or item of a financial statement.
95. The IAASB concluded that an engagement to report on summary financial statements would not be common for the typical nature and circumstances of an LCE, other than in a limited number of jurisdictions which could develop jurisdictional specific requirements. Therefore, the IAASB decided not to include a reference to engagements to report on summary financial statements.

Relevant Ethical Requirements and Firm-level Quality Management

Background and Summary of Comments Received on Exposure

96. Using the same approach as the ISAs, the ED-ISA for LCE had been developed requiring that the auditor comply with relevant ethical requirements, including those pertaining to independence. In addition, the ED-ISA for LCE had been developed on the basis that the auditor performing the engagement is a member of a firm that is subject to the IAASB's ISQMs, or national requirements that are at least as demanding.
97. Respondents suggested to include an explicit reference of what relevant ethical requirements paragraph 1.2.1. of the ED-ISA for LCE are referring to. It was understood that this is also in the Glossary, but respondents preferred to include it in Part 1 for ease of reference and clarity. Given the

¹⁶ The ISA 800-series includes: ISA 800 (Revised), *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*; ISA 805 (Revised), *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* and ISA 810 (Revised), *Engagements to Report on Summary Financial Statements*.

importance of ethical and independence requirements in an audit, it was suggested that EEM should be included to address the fundamental concepts and principles addressed in IESBA Code.

98. Respondents noted that only having EEM for firm-level quality management is not in line with the ISA for LCE's drafting principles.

IAASB Decisions

99. The IAASB agreed with respondents' comments that additional EEM that explains what relevant ethical requirements may be and the fundamental principles the IESBA Code establishes, is useful. Therefore, the IAASB added EEM under paragraph 1.2.1.
100. The IAASB also agreed with respondents' comments that only having EEM for firm-level quality management is not in line with the ISA for LCE's drafting principles and therefore added a requirement in paragraph 1.2.2. The requirement requires the engagement partner to be a member of a firm that applies the ISQMs, or national requirements that are at least as demanding as the ISQMs.

Engagement Letter

Background and Summary of Comments Received on Exposure

101. The ED-ISA for LCE required the auditor to record in an audit engagement letter or other suitable form of written agreement that the audit will be undertaken using the ISA for LCE. Respondents noted that there is no need to include such a requirement since it should be sufficient to document that an audit will be undertaken.
102. Respondents also noted that the audit engagement letter or other suitable form of written agreement should include the eventuality that, as the audit progresses, the auditor determines that the ISA for LCE is no longer applicable and therefore a transition to the use of the full ISAs may be necessary.

IAASB Decisions

103. The IAASB decided to keep the requirement to record in an engagement letter, or other suitable form of written agreement, that the audit will be undertaken using the ISA for LCE. The IAASB was of the view that it is important to be transparent to management which auditing standards are used and that this is aligned with what is disclosed in the auditor's report.
104. The IAASB decided not to add a requirement to include in the audit engagement letter or other suitable form of written agreement that there is a possibility of transitioning from the ISA for LCE to the ISAs. The IAASB noted that this may not be appropriate as it may conflict with local regulations. For example, some jurisdictions do not allow changes to the engagement terms after agreement.

Going Concern

Background and Summary of Comments Received on Exposure

105. The ED-ISA for LCE included requirements and EEM related to going concern in Parts 5, 6, 7, 8 and 9.
106. Respondents noted that management of an LCE is more likely to only perform an informal assessment of the entity's ability to continue as a going concern at the planning stage. Therefore, it was suggested that the ISA for LCE should clarify that the going concern assessment does not have to be written or provide guidance around its informal nature. Respondents also noted that the

requirements in Part 5 may be relocated as going concern related content is included in each part from Part 5 through Part 9 in the ED-ISA for LCE and that this may cause confusion.

IAASB Decisions

107. The IAASB agreed with respondents that the going concern requirement that is performed during the risk identification and assessment stage could be more proportional. To make the requirement proportional, the IAASB removed the reference to an explicit preliminary going concern assessment and instead added an inquiry with management focusing on the outcome of the procedure.
108. Regarding the relocation of the going concern related requirements, the IAASB noted that the related requirements in Part 5 are in essence risk assessment procedures. It was also noted that similar requirements in ISA 570 (Revised)¹⁷ are included in the “Risk Assessment Procedures and Related Activities” section. Therefore, the IAASB moved the requirements to Part 6.

Materiality

Background and Summary of Comments Received on Exposure

109. The ED-ISA for LCE included requirements and EEM to set materiality and performance materiality in Part 5.
110. Respondents noted that more guidance is needed to determine materiality and performance materiality, such as considerations related to identifying an appropriate benchmark and determining a percentage to be applied to a chosen benchmark. Also, respondents noted this guidance should include considerations for non-profit and profit-oriented organizations.
111. In addition, respondents suggested to add the concept of “clearly trivial misstatement” in Part 5 instead of in Parts 7 and 8 since it is more consistent with the flow of an audit (i.e., auditors would calculate a clearly trivial threshold at the planning stage before designing and performing further audit procedures).

IAASB Decisions

112. Based on respondents’ requests for more guidance, the IAASB added EEM related to identifying an appropriate benchmark and determining a percentage to be applied to a chosen benchmark. Additional guidance will be considered when developing the Implementation Guide.
113. The IAASB moved the requirement which requires documentation of the amount below which misstatements would be considered clearly trivial from Parts 7 and 8 to Part 5 to address respondents’ comments that such a calculation would normally be performed at an earlier stage of the audit. In addition, EEM under paragraph 5.3.3. was added which includes context as to why the auditor may designate such an amount during the planning stage.

Responding to Assessed Risks of Material Misstatement

Background and Summary of Comments Received on Exposure

114. Part 7 in the ED-ISA for LCE sets out the auditor’s procedures to respond to the assessed risks of material misstatements.

¹⁷ ISA 570 (Revised), *Going Concern*

115. Generally, respondents supported the requirements and EEM included in Part 7. However, respondents also noted several areas where further requirements or EEM were needed for the standard to be able to be applied as a standalone standard. In addition, respondents noted that the ordering of paragraphs in section 7.3. on audit procedures responsive to the assessed risks of material misstatement at the assertion level is not mirroring the ordering in the ISAs and the flow of an audit.

Audit sampling

116. Respondents noted that the concept of sampling is integral to an audit and that it is especially important for fully substantive audits. Therefore, respondents were of the view that more guidance is needed, particularly as it relates to designing audit sampling, determining sample sizes, selection of items for testing, and evaluating the results of audit sampling.

Accounting estimates

117. As highlighted in Section D – Authority, respondents expressed concerns about the qualitative characteristics related to accounting estimates, which may inadvertently exclude the use of the standard where an entity is an LCE but may have one or a few accounting estimates that are not deemed pervasive to the complexity of the entity as a whole. Providing for such scenarios would necessarily also affect the requirements needed in Part 7 of the ISA for LCE.

IAASB Decisions

118. The IAASB considered respondents' comments for further requirements and EEM. In addressing respondents' comments, the IAASB balanced the request for more guidance with the principles used in developing the ISA for LCE.
119. Regarding requirements, the IAASB mostly revised the structure (e.g., merged or separated paragraphs) and eliminated duplication. The IAASB also added new requirements related to litigation and claims and documentation requirements when relying on controls that were tested in a previous audit.
120. Regarding EEM, the IAASB added guidance where it was deemed appropriate. For example, EEM was added related to:
- (a) Incorporating an element of unpredictability (EEM under paragraph 7.2.2.)
 - (b) Substantive procedures (EEM under paragraph 7.3.14.)
 - (c) Substantive analytical procedures (EEM under paragraph 7.3.16.)
 - (d) Accumulation of misstatements (EEM under paragraph 7.5.4.)
 - (e) Specific communication requirement related to significant deficiencies (EEM under paragraph 7.6.2.)
121. Regarding section 7.3., the IAASB agreed with respondents and improved the ordering of the paragraphs in section 7.3. to mirror the ISAs and the flow of an audit.

Audit sampling

122. The IAASB acknowledged respondents' comments and developed additional guidance. In doing so, the IAASB went back to ISA 530¹⁸ but also other guidance such as [IFAC's Guide to Using ISAs in the Audits of Small- and Medium-Sized Entities](#). The IAASB added guidance related to designing audit sampling, determining sample sizes, selecting of items for testing, and evaluating the results of audit sampling. Examples of factors influencing sample sizes for tests of controls and test of details were placed in an Appendix (Appendix 6) due to their length and specificity.

Accounting estimates

123. As described in Section D – Authority, the qualitative characteristics related to accounting estimates were revised to better describe the nature of accounting estimates that are typical for an LCE. Given these revisions, the IAASB was of the view that the requirements and EEM related to accounting estimates should be strengthened. The key changes to requirements and EEM in Part 7 are:

- (a) *Alignment with ISA 540 (Revised)*.¹⁹ The IAASB changed the structure of paragraph 7.4.18. of the ED-ISA for LCE. With the revision, there is one overarching requirement that sets out the three testing approaches for accounting estimates (paragraph 7.4.15 of the ISA for LCE). The related procedures to obtain sufficient appropriate audit evidence are in separate requirements for each of the testing approaches (i.e., in paragraphs 7.4.16. through 7.4.19. of the ISA for LCE). The IAASB believed this made the requirements clearer and facilitated the inclusion of EEM for each testing approach, as appropriate.
- (b) *Enhanced EEM*. The IAASB strengthened the EEM in several areas based on the application material of ISA 540 (Revised). For example, when the auditor tests how management made the accounting estimate, the IAASB added EEM that includes relevant considerations for the auditor regarding the appropriateness of the method, significant assumptions and data used. Also, EEM was added that provides guidance for the auditor's procedures that address whether management has taken appropriate steps to understand and address estimation uncertainty by selecting appropriate point estimates and developing related disclosures. In addition, the IAASB added EEM under paragraph 7.4.15. that steers the auditor to use audit evidence obtained from events occurring up to the date of the auditor's report, as the IAASB is of the view that this will often provide sufficient appropriate audit evidence to address the assessed risks of material misstatement.

Subsequent Events

Background and Summary of Comments Received on Exposure

124. Part 8 of the ED-ISA for LCE included requirements to address subsequent events. Some of the requirements in ISA 560²⁰ were not included as they were deemed uncommon in an audit of an LCE.

125. However, respondents noted that this may not be uncommon and when it does occur, the lack of these requirements may necessitate the engagement to transition to ISAs. Respondents suggested to add requirements that apply when:

¹⁸ ISA 530, *Audit Sampling*

¹⁹ ISA 540 (Revised), *Audit Accounting Estimates and Related Disclosures*

²⁰ ISA 560, *Subsequent Events*

- (a) Facts become known to the auditor after the date of the auditor's report but before the date the financial statements are issued; and
- (b) Facts become known to the auditor after the financial statements have been issued.

IAASB Decisions

126. The IAASB discussed respondents' comments regarding subsequent events and was of the view that it is still presumed to be uncommon for the typical nature and circumstances of an LCE to have subsequent events for situations noted by respondents. However, the IAASB agreed that it is not practical to transition to ISAs at the point when subsequent events occur. Therefore, the IAASB reviewed ISA 560 requirements not included in the ED-ISA for LCE and added requirements which were deemed appropriate in Part 8 (see paragraphs 8.4.6., 8.4.8., 8.4.9.) and made consequential changes to Part 9 (see paragraphs 9.5.21., and 9.6.7.).

Reporting

Background and Summary of Comments Received on Exposure

127. Part 9 in the ED-ISA for LCE sets out the requirements for forming an opinion and reporting.
128. Respondents, on balance, expressed support for the approach taken in Part 9, in particular praising the clarity and understandability and the innovative use of tables for presenting requirements. The more significant themes of comments included:
- (a) *Need to Reference the ISA for LCE in the Auditor's Report.* There were mixed views regarding whether the auditor's report needed to refer to the ISA for LCE. Respondents that did not support the reference questioned why a distinction was made when reasonable assurance is achieved. On the other hand, respondents that supported the reference noted that the transparency about which standard was used is important, and vital for regulator acceptance.
 - (b) *Specified Format and Content of Auditor's Report.* There was overall support for the approach to use the format and content of an unmodified audit report as a requirement. However, respondents noted that:
 - (i) The departure from the prescribed format or content of a report in paragraph 9.4.1.(a) of the ED-ISA for LCE should be wider than "law or regulation".
 - (ii) The ED-ISA for LCE is missing requirements for the auditor's report when the audit is conducted in accordance with both auditing standards of a specific jurisdiction and the ISA for LCE (i.e., the situation addressed in ISA 700 (Revised),²¹ paragraph 51).
 - (iii) The standard should allow referring to auditors' responsibilities outside of the report (e.g., in an appendix).

²¹ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

IAASB Decisions

129. The IAASB discussed respondents' feedback regarding the auditor's report and responded as follows:

- (a) *Need to Reference the ISA for LCE in the Auditor's Report.* The IAASB considered respondents' suggestion that a reference to the ISA for LCE in the auditor's report is not needed and was of the view that the auditor's report should continue to refer to the ISA for LCE for transparency. This is consistent with the decision on including a reference to the ISA for LCE in the engagement letter or other suitable form of written agreement (see paragraph 103).
- (b) *Specified Format and Content of Auditor's Report.* The IAASB discussed the three prominent comments from the respondents related to the auditor's report:
 - (i) *Departure from the prescribed format or content.* The IAASB concluded not to address this comment as that would make the ISA for LCE not aligned with the ISAs. However, to avoid confusion, paragraph 9.4.1.(a) was aligned more closely with ISA 700 (Revised), paragraph 50.
 - (ii) *Audit conducted in accordance with both auditing standards of a specific jurisdiction and the ISA for LCE.* The IAASB agreed with respondents' comments and therefore added paragraph 9.4.1(b) which clarifies that, if an auditor is required to follow a national standard, including the layout and wording of the report, the auditor can claim compliance with the ISA for LCE only if the requirements of both standards have been complied with and the report includes the elements required by ISA for LCE.
 - (iii) *Auditors' responsibilities.* The IAASB made a revision to allow for the description of the auditors' responsibilities to be presented in an appendix or, where expressly permitted by a jurisdiction, on a website of an appropriate authority (see footnote to the auditor's report included under paragraph 9.4.1).

Re-Exposure

130. Some respondents to the ED-ISA for LCE-Group Audits noted difficulties to respond without an updated draft of the ISA for LCE (in particular the Authority), and therefore noted the need for re-exposure of the standard. The IAASB considered the issue and concluded that the issue is not pervasive as:

- (a) The ED-ISA for LCE-Group Audits provided additional information regarding the changes up to date made to the Authority (Part A) based on feedback received on the ED-ISA for LCE and the Board's further deliberations on how to accommodate group audits in the context of the Authority more broadly;
- (b) The ED-ISA for LCE-Group Audits included links to IAASB agenda papers in which the changes to the standard were discussed; and
- (c) The IAASB received rich comments on the ED-ISA for LCE-Group Audits, which shows that overall, respondents were able to provide input based on applicable information available at the time.

131. In addition to the matter highlighted in paragraph 130, above, the IAASB also considered the major changes from the ED-ISA for LCE and ED-ISA for LCE-Group Audits and noted that:
- (a) There are no substantial changes to the key concepts of the project. All the key elements presented in ED-ISA for LCE and ED-ISA for LCE-Group Audits have been retained. Changes made in response to comments received on exposure have not altered the key elements of the proposed standard, nor have they resulted in a departure from the project objectives.
 - (b) No new key concepts have been introduced that have not been exposed.
 - (c) The changes to the text post-exposure are in response to feedback from respondents to the ED-ISA for LCE and ED-ISA for LCE-Group Audits and do not fundamentally or substantively change the proposals in the Exposure Drafts.
132. Further, the IAASB is of the view that re-exposing the ISA for LCE will not result in new information or concerns that have not been aired already through the comment letters on ED-ISA for LCE and ED-ISA for LCE-Group Audits or the subsequent outreach and consultation activities. Given the above, the IAASB voted unanimously against re-exposure of the ISA for LCE.

Section H – Conforming Amendments

133. Based on a review of the IAASB's International Standards, the IAASB proposed conforming amendments arising from the ISA for LCE which impact the:
- Preface;²²
 - ISQM 1;
 - ISQM 2;
 - ISAE 3000 (Revised);²³
 - ISRE 2400 (Revised);²⁴
 - The International Framework for Assurance Engagements; and
 - IAPN 1000.²⁵
134. The main conforming amendments include:
- (a) *Conforming amendments to ISQM 1 and ISQM 2.* The application material in ISQM 1 and ISQM 2 includes several references to requirements in the ISAs for guidance when conducting an audit of financial statements. The IAASB was of the view that only having references to the ISAs may confuse auditors who conduct an audit using the ISA for LCE as there are no references to the ISA for LCE. Therefore, the IAASB added an overarching principle that indicates that the ISA for LCE also includes requirements regarding quality management.

²² *Preface to The International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements*

²³ International Standard on Assurance Engagement (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

²⁴ International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

²⁵ International Auditing Practice Notes (IAPN) 1000, *Special Considerations in Auditing Financial Instruments*

- (b) *Conforming amendment to ISRE 2400 (Revised)*. ISRE 2400 (Revised), paragraph 86(g)(iii) requires practitioners to include in their report for a review engagement the limitations of such a report, including the fact that procedures performed in a review are substantially less than those performed in an audit conducted in accordance with the ISAs, and, accordingly, the practitioner does not express an audit opinion on the financial statements. As the ISA for LCE will be an alternative to the ISAs to conduct audits of financial statements, the IAASB made conforming amendments to this paragraph and removed the reference to the ISAs and added a general reference to auditing standards issued by the IAASB.

Section I – Effective Date

- 135. In the Explanatory Memorandum to the ED-ISA for LCE, the IAASB proposed that the effective date for the standard would be for financial reporting periods beginning at least 18 months after the approval of a final standard, and early application would be permitted and encouraged. The IAASB had the view this would be appropriate recognizing that the ISA for LCE is a new standard and given the need for national due process and translation, as applicable.
- 136. Generally, respondents supported the effective date and early adoption for the ISA for LCE to be for financial reporting periods beginning at least 18 months after the approval of a final standard. There were respondents that had other views and noted that 18 months is too short considering the effort needed to implement, especially because the ISA for LCE is a new standard that affects the entire audit. On the other hand, there were respondents who supported shorter periods than 18 months. They noted that the use of the ISA for LCE will be voluntary and were therefore of the view that the effective date is less important than with other International Standards and should be effective as soon as possible.
- 137. The IAASB was of the view that an effective date is needed for the ISA for LCE to align with the structure of the ISAs (i.e., ISAs have effective dates) and to make it easier for jurisdictions to plan for and facilitate adoption and implementation of the standard. Also, in the future when the standard is updated, an effective date will signal when the previous version of the standard becomes out of date.
- 138. Taking into account that the IAASB approved the ISA for LCE in September 2023, the expected timing of the PIOB's consideration of certification in accordance with the Public Interest Framework (December 2023), and respondent's comments, the IAASB decided that the ISA for LCE will be effective for audits of financial statements of LCEs for periods beginning on or after December 15, 2025 (i.e., 2026 calendar year audits). Early adoption is permitted and encouraged.
- 139. In the IAASB's view, the effective date is in the public interest because it would provide for an implementation period of approximately 24 months after PIOB certification. This implementation period would:
 - (a) Provide stakeholders with sufficient implementation time, including time for translation, changes to firm methodologies and training, and planning and communications by other stakeholders (e.g., audit regulators and NSS).
 - (b) Reflect the views of stakeholders as discussed at paragraph 136.

Section J – Maintenance

Background and Summary of Comments Received on Exposure

140. In the Explanatory Memorandum to the ED-ISA for LCE, the IAASB proposed that revisions to the ISA for LCE will be made periodically when projects to revisit ISAs are undertaken. As part of each ISA project, it was intended that there will be explicit consideration of which and when changes to the ISA for LCE will be made.
141. There were mixed views about the maintenance of the standard. Certain respondents were of the view that the timing of revisions to the ISAs and the ISA for LCE should be aligned. Other respondents were of the view that providing a stable platform is important for stakeholders given the efforts needed to update methodologies and educate auditors and therefore suggested revising the ISA for LCE periodically. There were also respondents that were of the view that the IAASB should only revise the ISA for LCE when urgent matters related to LCEs are being raised by stakeholders.

IAASB Decisions

142. After considering a draft proposal for an initial period of stability of five years once the ISA for LCE becomes effective (December 15, 2025), the IAASB agreed that a shorter period would be more appropriate in terms of balancing different demands and expectations. The IAASB decided to have an initial 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). The IAASB agreed that it is important to provide stakeholders an initial period of stability as that will give them time to adopt and implement the standard before introducing revisions to the standard.
143. The IAASB will consider the best way to maintain the ISA for LCE after the initial period. A core consideration in deciding the way forward is that the ISA for LCE must remain up to date and, to the greatest extent possible, consistent with the ISAs.

The International Foundation for Ethics and Audit™ (IFEATM), the International Auditing and Assurance Board (IAASB®) and the International Federation of Accountants® (IFAC®) do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

International Standards on Auditing, International Standard on Auditing for Audits of Financial Statements of Less Complex Entities, International Standards on Assurance Engagements, International Standards on Review Engagements, International Standards on Related Services, International Standards on Quality Management, International Auditing Practice Notes, Exposure Drafts, Consultation Papers, and other IAASB publications are copyright of IFAC.

Copyright © [Month] 2024 by the International Federation of Accountants (IFAC). All rights reserved. This publication may be downloaded for personal and non-commercial use (i.e., professional reference or research) from www.iaasb.org. Written permission is required to translate, reproduce, store or transmit, or to make other similar uses of this document.

The 'International Auditing and Assurance Standards Board', 'International Standards on Auditing', 'International Standard on Auditing for Audits of Financial Statements of Less Complex Entities', 'International Standards on Assurance Engagements', 'International Standards on Review Engagements', 'International Standards on Related Services', 'International Standards on Quality Management', 'International Auditing Practice Notes', 'IAASB', 'ISA', 'ISA for LCE', 'ISAE', 'ISRE', 'ISRS', 'ISQM', 'IAPN', and IAASB logo are trademarks of IFAC, or registered trademarks and service marks of IFAC in the US and other countries. The 'International Foundation for Ethics and Audit' and 'IFEATM' are trademarks of IFEA, or registered trademarks and service marks of IFEA in the US and other countries.

For copyright, trademark, and permissions information, please go to [permissions](#) or contact



**International Auditing
and Assurance
Standards Board**

529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 **F** +1 (212) 286-9570
www.iaasb.org