

Audits of Less Complex Entities

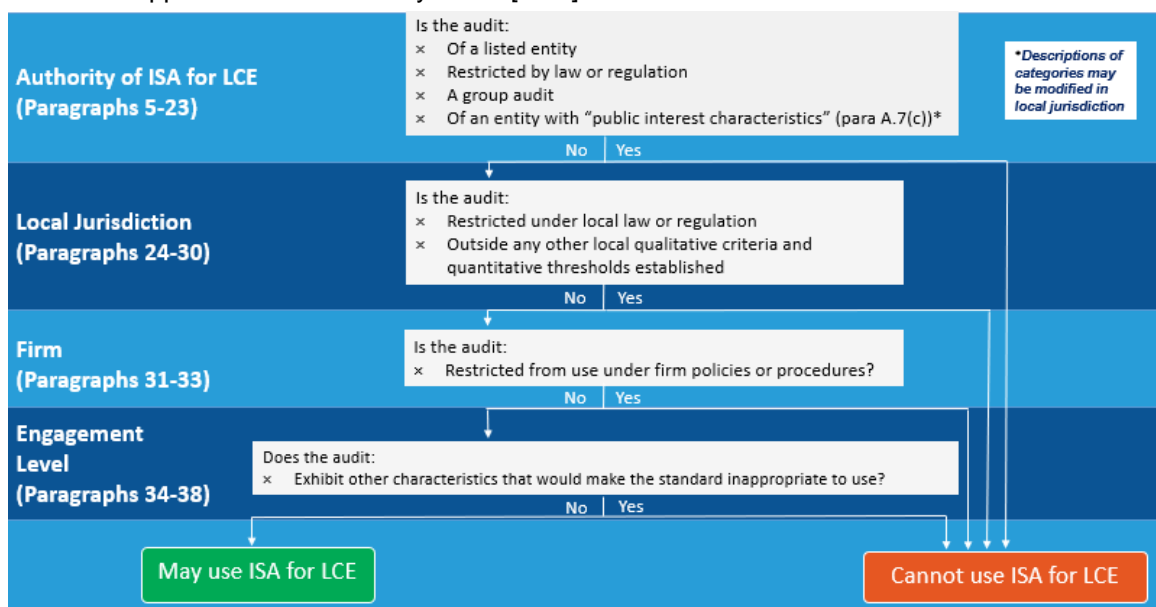
Supplemental Guidance – Authority of the [Draft] ISA for LCE

I. Purpose

- This publication provides additional information that may be of assistance with respect to the adoption and implementation of the IAASB's proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE). It has been developed to further explain matters and circumstances that may be relevant for determining the appropriate use of the [draft] ISA for LCE, and may be useful to:
 - Legislative authorities or relevant local bodies* (such as regulators or oversight bodies, national standard setters, professional accountancy organizations or others with authority for setting auditing standards) when determining the permitted use of the [draft] ISA for LCE in an individual jurisdiction.
 - Firms* for developing policies or procedures in relation to the use of the [draft] ISA for LCE.
 - Practitioners* when accepting or continuing an engagement.
- This staff-prepared publication does not amend or override the [draft] ISA for LCE, the text of which alone is authoritative. Reading this publication is not a substitute for reading the [draft] ISA for LCE. This guide is not meant to be exhaustive and reference to the [draft] ISA for LCE itself should always be made.

II. Introduction

- The description of the 'authority' is set out in Part A of the [draft] ISA for LCE (the [draft] standard), which describes the limitations for using the standard, as well as the roles of legislative authorities or relevant local bodies, firms and practitioners.
- The broad approach to the authority of the [draft] standard is illustrated below:



III. Limitations for Using the [Draft] ISA for LCE

5. The limitations for using the [draft] standard are important to be understood because the requirements in the [draft] standard have been designed to be proportionate to the expected nature and circumstance of an audit of an LCE in the private and public sectors. The [draft] standard does not address complex matters or circumstances and has not been designed for obtaining sufficient appropriate audit evidence for these complex matters or circumstances.
6. The limitations for use and the content of the [draft] standard are based on the following overarching principles:
 - Audits of entities that have public interest characteristics have been excluded.
 - Complex matters or circumstances relating to the nature and extent of the entity's business activities, operations and related transactions and events relevant to the preparation of the financial statements, are excluded.
 - Topics, themes or matters that increase, or indicate the presence of, complexity have been excluded, such as those relating to ownership, corporate governance arrangements, policies, procedures or processes established by the entity.
7. For entities for which there is significant public interest in their financial condition and hence their financial statements (i.e., they exhibit public interest characteristics), it is important that there is public confidence in those financial statements. Entities that have public interest characteristics, including as reflected in the expectations of regulators, users of financial statements and other relevant stakeholders, could imply an intrinsic level of complexity in fact or appearance and have been excluded from the scope of the ISA for LCE (because of the implied complexity).
8. Some jurisdictions may have defined public interest entities (PIEs) for that jurisdiction, while others may not have a definition of PIEs. Regardless, the [draft] standard is not appropriate to use if an entity exhibits public interest characteristics as described in the [draft] standard. Part A sets out those classes of entities with *deemed* public interest characteristics, and are broadly based on:
 - Entities, whose shares, stocks or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body (i.e., listed entities).
 - The nature of the business or activities of the entity, such as those entities taking on financial obligations to the public as part of an entity's primary business.
 - Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
9. There may also be other classes of entities that may exhibit public interest characteristics, and if so these classes of entity can also be restricted from using the standard if it is considered that the standard would not be appropriate. Other 'public interest characteristics' that could also be considered include:
 - The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
 - Number and nature of stakeholders including investors, customers, creditors and employees.

- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.
10. Taking into account the overarching principles for establishing the limitations (as set out in paragraph 6 above), the limitations for using the [draft] standard are designated into two categories:
- (a) Specific classes of entities for which the use of the standard is restricted (see paragraphs 11–17); and
 - (b) Qualitative characteristics that if exhibited would limit the use of the standard because they are indicators of, or proxies for, matters or circumstances for which the standard has not been designed (see paragraphs 18–21).

Classes of Entities that are Specifically Restricted

11. Paragraph A.7. in Part A of the [draft] standard sets out the classes of entities for which the use of the standard is specifically restricted. Some classes of entity will always be restricted from the scope of the standard, i.e., the [draft] standard will never be able to be used for such entities. Other classes of entity may be able to be 'modified' in limited circumstances by legislative authorities or relevant local bodies with standard-setting authority (although an entire class cannot be removed). Individual jurisdictions and firms will always be able to add to the list of specifically restricted entities (i.e., be able to further exclude certain classes of entities from using the standard).

Classes of Entity for which there is an Outright Restriction

12. The following classes of entities will always be prohibited from using the [draft] standard:
- (a) If law or regulation:
 - (i) Prohibits the use of the [draft] ISA for LCE; or
 - (ii) Specifies auditing standards other than the [draft] ISA for LCE for an audit of financial statements in that jurisdiction.
 - (b) If the entity is a listed entity.
 - (c) If the audit is an audit of group financial statements.¹

Classes of Entity Where the Restriction For that Class Can be Modified

13. As explained in paragraph A.7.(c) of the [draft] standard, the [draft] standard shall not be used if an entity meets one of the following criteria:²
- (a) An entity one of whose main functions is to take deposits from the public;

¹ Consistent with the proposed ISA 600 (Revised), group financial statements are financial statements that include the financial information of more than one entity or business unit through a consolidation process. The term consolidation process refers not only to the preparation of consolidated financial statements in accordance with the applicable financial reporting framework, but also to the presentation of combined financial statements, and to the aggregation of the financial information of entities or business units such as branches or divisions. This definition may change as ISA 600 (Revised) is finalized.

² The criteria set out in paragraph 9 align with the proposals by the International Ethics Standards Board for Accountants (IESBA) to describe a public interest entity – if further changes are made by the IESBA further consideration will be given to the appropriateness of this list for the purpose of the authority of the [draft] ISA for LCE.

- (b) An entity one of whose main functions is to provide insurance to the public;
 - (c) An entity whose function is to provide post-employment benefits;
 - (d) An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public; or
 - (e) An entity is specified as not able to use the [draft] ISA for LCE by law or regulation.
14. The classes of entity described in paragraphs 13 (a)–(d) above generally exhibit public interest characteristics and have therefore been generally restricted from using the [draft] standard. Such entities are often defined by local legislation governing, for example, entities undertaking banking or insurance businesses, but for the purpose of the [draft] standard, they are broadly described for global application in such a way that so as to avoid any terms that are more jurisdiction specific.
15. In addition, because the [draft] standard describes these classes of entities for global application, no size criteria are used. However, there may be entities within a local context that are scoped in when they do not exhibit public interest characteristics. In a specific jurisdiction, legislative authorities or relevant local bodies therefore have the ability to ‘modify’ these classes of restricted entities for those entities within a class that are deemed not to have public interest characteristics. Such changes can only be made at a jurisdictional level. For example, legislative authorities or relevant local bodies may make such a modification where a jurisdiction has entities whose function is to provide post-employment benefits, but certain entities within this class have a limited number of beneficiaries. However, an entire class of restricted entity cannot be removed.
16. In addition, legislative authorities or relevant local bodies may also consider other classes of entities on which the use of the [draft] ISA for LCE should be restricted in the local context, and further restrict such a class of entity from the use of the standard through law or regulation (i.e., the class described in paragraph 13(e)).
17. Legislative authorities or relevant local bodies can also apply quantitative criterion for the use of the standard based on, for example, size criteria such as revenue, total assets or number of employees. In doing so, the qualitative characteristics for complexity should also be considered.

Further Guidance on Classes of Entities that May be Modified

- ❖ *Entities with deposit-taking and insurance businesses take on significant financial obligations to the public (both individuals and corporate entities) and, as a consequence of both taking on those obligations and the interconnectedness of the role they play in the financial markets, are generally subject to significant financial and prudential regulation and supervision. The term “one of whose main functions” is used in order to capture entities that have other main functions such as credit and lending but also to exclude those entities for which deposit-taking or insurance is not a main function.*
- ❖ *Entities used to provide for post-employment benefits, such as pension funds, usually hold significant investments over the medium to longer term often on behalf of large numbers of stakeholders. The proposals are intended to capture both pension funds available to the public and those that are restricted to the employees of specified entities. The term “whose function” is used instead of “one of whose main functions” in order not to include all employers that just contractually provide post-employment benefits to their employees.*

- ❖ *The category to capture entities whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public is intended to cover those “fund vehicles” such as mutual funds, unit trusts or open-ended investment companies (OEICs) where an investor can only realize its investment by selling it back to the entity. In using the phrase “an entity that issues,” the proposed category restricts the definition to only the “issuing” entity (i.e., the fund itself) but not the fund management company.*

Qualitative Characteristics Limiting Use of the [Draft] ISA for LCE

18. If the use of the standard is not restricted for a class of entity as described above, determining whether the [draft] ISA for LCE is appropriate for an audit of financial statements is a judgment made and based on the nature and circumstances of the entity being audited. As noted, the qualitative characteristics are indicators of, or proxies for, matters or circumstances that are deemed complex and for which the standard has not been designed.
19. As with the restricted entities, the requirement within the [draft] standard have not been designed to obtain sufficient appropriate audit evidence for the matters or circumstances detailed below.
20. The table below further describes and provides examples of the qualitative characteristics detailed in paragraph A.10. of Part A of the [draft] standard that may indicate that the standard is not appropriate for use for a particular entity. This list is not exhaustive and other relevant matters may also need to be considered – it is intended to illustrate how the requirements in the [draft] standard have been developed for audits of less complex entities.
21. Characteristics designated by “✓” represent those that are commonly associated with an LCE, and those designated with “✗” are those that are commonly not associated with an LCE. The individual characteristics listed are not mutually exclusive and should be considered individually and in combination (i.e., the characteristics, individually or in combination may persuade or dissuade a suitably experienced auditor in determining whether the audit is an audit of an LCE for the purpose of using the [draft] standard). The presence of one characteristic for an entity does not necessarily exclude the use of the [draft] standard for that entity, professional judgment is used in applying the qualitative characteristics listed below.

Business Activities, Business Model or Industry	
<i>The entity’s business activities, business model or the industry in which the entity operates results in pervasive risks that increase the complexity of the audit, such as when the entity provides high-risk products or services.</i>	
✓	Business activities and business model are well established for the industry and products or services do not give rise to a pervasive risk of technological obsolescence, legal liability or reputational risk.
✗	High risk products and services, that may result in technological obsolescence, legal liability or reputational risk.

Organizational Structure	
<p><i>The organizational structure is not relatively straightforward or simple, such as</i></p> <ul style="list-style-type: none"> • <i>Multiple levels and reporting lines, with many individuals involved in financial reporting, to accommodate the entity's business activities; or</i> • <i>Including unusual entities or arrangements, such as special-purpose entities, joint ventures, off-balance sheet financing arrangements, or other complex financing arrangements.</i> 	
✓	Straightforward or simple organizational structure, for example, entity's business activities comprising a few lines of business and few products within business lines, and requiring few employees involved in roles related to financial reporting.
✗	Multiple levels and reporting lines to accommodate the entity's business activities which may be varied, with many individuals involved in financial reporting
✗	Organizational structure that involves unusual entities or arrangements such as special-purpose entities, off-balance sheet finance or other complex financing arrangements.
Ownership or Oversight Structure	
<p><i>Ownership or oversight structures are complex, such as where there are multiple owners or where the governance structures are multifaceted.</i></p>	
✓	An owner-managed entity, including a single owner-manager or when there is a concentration of ownership and management in a small number of individuals.
✓	All of those charged with governance are involved in managing the entity (i.e., those with a governance role generally do not include an independent or outside member(s) unless typical for that type of entity in that jurisdiction (e.g., a charity or public sector entity)).
✗	Complex ownership arrangements (e.g., relating to determining controlling interest or joint ownership arrangements) or operations that necessitate a distinction based on geographic dispersion or industry segmentation.
✗	The involvement of related parties is complex, such as when related parties operate through an extensive and complex range of relationships and structures.
Regulation or Regulatory Oversight	
<p><i>The entity's operations are subject to a high degree of complex regulation or to significant regulatory oversight, such as being subject to prudential regulations.</i></p>	
✓	Operations are not subject to a high degree of regulation or regulatory supervision.
✗	Operations that are subject to a high degree of regulation. Note: For public sector entities, additional regulation is not always an indicator of complexity.
✗	The entity is subject to regulatory supervision, including where the entity's performance or financial position is measured against regulatory requirements such as prudential requirements, or regulatory ratio or exposure requirements.

Transactions and Information Processing	
<i>Transactions are complex or the information system and related processes relevant to the entity's financial statements are complex such that the data collection and processing involves complex accounting or calculations.</i>	
✓	Straightforward or uncomplicated transactions resulting from few lines of business or products, requiring simple record-keeping and few internal controls.
✓	Few levels of management with responsibility for a broad range of controls, including that many controls may be directly applied by management.
✓	Few personnel, many having a wide range of duties and few employees involved in roles related to financial reporting.
✓	If the entity uses a service organization relevant to financial reporting, the service processes transactions that are straightforward or uncomplicated, and it is anticipated that the auditor would be able to obtain the necessary audit evidence without difficulty from records available. For example, in order to obtain sufficient appropriate audit evidence, the auditor does have the ability to access the relevant accounting records directly for the purpose of obtaining sufficient appropriate audit evidence and will not need to rely on reports on the operating effectiveness of controls from the entity providing the services (e.g., 'Type 1' and 'Type 2' reports).
✗	There is complexity in data collection and processing, including complicated transactions or accounting entries that may involve complex calculations. For example, complexity may arise when transaction processing has to account for different commercial terms with many different suppliers, customers or other parties, there are many interrelated commercial terms, or the processing of data involves many inter-related steps and the data is more difficult to identify, capture, access, understand or process.
✗	The entity has a shared service center(s), whether as part of the entity itself or as part of the group to which the entity belongs, to centralize activities or processes relevant to the entity's financial reporting.
The Entity's IT Environment and IT System(s)	
<i>Where the entity's IT environment or IT systems are complex, such as when the IT environment and processes involve highly-customized or highly-integrated IT applications, with internal resources or external service providers that have software development and IT environment maintenance skills to support the IT environment and processes</i>	
✓	The entity uses commercial software with no or limited modifications, including when the entity does not have access to the source code to make any program changes.
✓	The IT organizational structure is straightforward or uncomplicated, for example, the entity may not have dedicated IT resources but may have a person assigned in an administrator role for the purpose of granting employee access or installing vendor-provided updates.
✓	The entity's IT application(s) perform automated information processing controls, however, the underlying transactions by their nature are straightforward or uncomplicated. Although the transactions may be subject to highly automated processing with little or no manual intervention,

	their processing would typically involve the use of commercial software with no or limited modifications that is part of the entity's accounting software package or that provides for a simple interface with the entity's accounting software package.
X	The IT organizational structure involves a dedicated IT department(s) that have structured processes, develop and implement program changes, manage access rights and are supported by personnel that have software development and IT environment maintenance skills. Alternatively, the entity may use internal or external service providers to manage certain aspects of, or IT processes within, its IT environment to meet its IT needs as indicated by the nature and extent of its business activities and related transactions and events.
X	The entity's IT environment includes highly-customized or highly-integrated IT applications, including financial reporting processes or IT applications that may be integrated with other applications (such as ERP systems). For example, IT applications that are used in the entity's business operations may be integrated with the IT applications relevant to the entity's flows of transactions and information processing.
Where the entity's accounting estimates are complex	
<i>Where the entity's accounting estimates are subject to a high degree of estimation uncertainty or the measurement bases requires complex methods that may involve multiple sources of historical and forward-looking data or assumptions, with multiple interrelationships between them.</i>	
<p>Accounting estimates vary widely in nature and are subject to varying degrees of estimation uncertainty, which is the susceptibility to a lack of precision in measurement.</p> <p>In determining whether there are accounting estimates that do not fall within the scope of the [draft] standard, it is appropriate to have regard to the degree to which the selection and application of the method(s), assumptions and data used in making the accounting estimate(s), and the recognition criteria, measurement bases and related presentation and disclosure requirements of the applicable financial reporting framework, are affected by complexity.</p> <p>Accounting estimates that do not require significant judgments (i.e., relating to methods, assumptions or data), or for which the process for making the accounting estimates is less complex, are within the scope of the [draft] standard. Although the accounting estimates may still be subject to or affected by estimation uncertainty, complexity, subjectivity, or other inherent risk factors, this is to a lesser degree.</p> <p>When considering the complexity of accounting estimates in the determination of whether the [draft] standard is appropriate for use, using an auditor's expert with regard to an accounting estimate is not automatically a proxy for complexity. The nature and circumstances (inherent characteristics) of the underlying accounting estimate are what drives the auditor's determination of complexity, not necessarily the need for using an auditor's expert.</p>	
✓	Fair value accounting estimates that use quoted prices in active markets for identical assets or liabilities. Such inputs are readily available and observable. For example, International Financial Reporting Standards (IFRS) refer to such inputs as Level 1 inputs; these provide the most reliable evidence of fair value.

X	Inherently the accounting estimate(s) is known to be associated with complicated transactions or accounting entries that involve significant subjectivity in judgments, complex calculations, or complex modelling.
X	Classified as complex under known financial reporting frameworks that may distinguish accounting estimates based on the degree of complexity inherent in the recognition criteria, measurement bases, and related presentation and disclosure requirements. For example, the IFRS for Small and Medium Sized Entities (IFRS for SMEs) distinguishes between basic financial instruments and other more complex financial instruments and transactions.
X	The measurement basis required by the applicable financial reporting framework results in the need for a complex method that requires multiple sources of historical and forward-looking data or assumptions, with multiple interrelationships between them, or that use a long forecast period.
X	Management has developed a model internally and has relatively little experience in doing so or uses a model that applies a method that is not established or commonly used in a particular industry or environment.
X	Complexity in the model as reflected by the degree to which there may be a need to apply probability-based valuation concepts or techniques, option pricing formulae or simulation techniques to predict uncertain future outcomes or hypothetical behaviors.
X	Difficulty in applying the method due to many valuation attributes with many interrelationships between them, the use of multiple data sets (or data from multiple sources), multiple assumptions with various layers of correlation, multiple iterations of the calculation, or the calculation involves the application of sophisticated mathematical or statistical concepts.
X	High level of difficulty to identify, capture to obtain reliable or supportable data needed for making the estimate (e.g., owing to restrictions on the availability or observability of, or access to, data).
X	The data used is inherently difficult to understand. For example, the data used requires an understanding of technically complex business or legal concepts, or complex contractual terms.
X	The information system(s) used to obtain and process the data are complex or sophisticated. For example, extensive controls are required in relation to obtaining, transmitting, and processing data and maintaining the integrity of data and assumptions used in the model. Furthermore, there may be diverse systems required to process complex transactions, requiring either automated interfaces or extensive manual intervention (e.g., reconciliations).
X	Fair value accounting estimates that use unobservable inputs to measure the fair value of the asset or liability. For example, IFRS refer to such inputs as Level 3 inputs which an entity develops using the best information available in the circumstances (including the entity's own data) and that reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

Impact on the [Draft] Standard of the Limitations for Use

22. As set out in this supplemental guidance, the [draft] standard does not contain requirements for matters or circumstances that were not contemplated in the development of a standard for auditing an LCE. This includes requirements relating specifically to restricted entities, as well as for the other

characteristics related to complexity. Accordingly, for example, the [draft] standard does not include any requirements:

- (a) Specific to listed entities, including procedures related to reporting on segment information or key audit matters.
- (b) Where the auditor intends to rely on the work of internal auditors.

The [draft] standard also does not include broad requirements designed to address the complexities within paragraph A.10. in Part A of the [draft] standard and as further explained in this document.

- 23. The [draft] ISA for LCE does not address additional responsibilities of auditors arising from local law, regulation or governmental authority, which may encompass a broader scope than an audit of financial statements in accordance with the [draft] ISA for LCE and so are addressed by legislative authorities or relevant local bodies within the relevant jurisdiction.

IV. The Role of Legislative Authorities or Relevant Local Bodies

- 24. Decisions about the required or permitted use of the IAASB's auditing standards in individual jurisdictions rest with legislative authorities or relevant local bodies. This applies to the International Standards on Auditing (ISAs) (i.e., the full set of ISAs from ISA 200 to ISA 810) and the [draft] standard.
- 25. In conjunction with the issuance of the [draft] standard in a jurisdiction, legislative authorities or relevant local bodies are expected to issue provisions and accompanying guidance for use of the [draft] standard, as appropriate. This may include a description of which audits are permitted to be conducted using the [draft] standard in accordance with Part A of the [draft] standard, taking into account, among other matters, the purpose of and information in this supplement as appropriate. Legislative authorities or relevant local bodies may also include additional information for firms and auditors arising from local law, regulation or governmental authority.
- 26. It is in the public interest to ensure that the use of the [draft] standard in individual jurisdictions or regions are clarified as far as possible through local laws or regulations, or through further modifying the categories of entities or the criteria to be used, as appropriate. If there is uncertainty about whether, based on the consideration of typical characteristics associated with complexity, an audit is or is not an audit of an LCE, it is appropriate to conclude it not to be an audit of an LCE and so be excluded from using the [draft] standard. Accordingly, application of the full ISAs, or other applicable auditing standards, would be appropriate.
- 27. The limitations set out in Part A of the [draft] standard, and as further described above, explain the intended scope of the [draft] standard and are aimed at informing legislative authorities or relevant local bodies regarding the types of entities for which the [draft] standard would be appropriate when making decisions to adopt or use the standard. The [IAASB] recognizes that the restrictions and related characteristics of entities set out in the [draft] standard are broadly described, and no recognition is given to criteria that may be relevant to the nature and circumstances of entities and audits in an individual jurisdiction.
- 28. As explained, Part A of the [draft] standard allows legislative authorities or relevant local bodies to further restrict use of the [draft] standard by, for example, setting size criteria appropriate for the jurisdiction and its circumstances, or limiting other classes of entities from using the standard. As it

would not be practicable for the IAASB to define size thresholds or other criteria about what may constitute an audit of an LCE that would be capable of global application, any decisions about additional criteria or restrictions are left to legislative authorities or relevant local bodies.

29. Legislative authorities or relevant local bodies may modify, but not remove, certain classes of entity for the use of the [draft] ISA for LCE (as described in paragraphs 13–17 above) (subject to the qualitative characteristics as described in paragraphs 18–21 above).
30. Legislative authorities or relevant local bodies may also set quantitative size limits in designating for which audits within that jurisdiction the standard can be used. In doing so, legislative authorities or relevant local bodies would also have regard to the overarching limitations regarding complexity, the specific restrictions, and the qualitative characteristics explaining complexity in an audit, as set out in Part A of standard and this publication, so that any quantitative size limits would contemplate the types of entities that the standard was developed for.

Example of Jurisdictional Determinations

The following are examples of factors a legislative authority or relevant local body may consider when evaluating the adoption and use of the [draft] ISA for LCE in that jurisdiction:

- ❖ *The local regulatory environment e.g., certain industries or entity types may be deemed complex based on regulations they are subject to in that jurisdiction and so it may be appropriate to add to the list of audits of entities specifically restricted from using the [draft] ISA for LCE.*
- ❖ *The nature of local entity structures or business models determines that entities that meet certain criteria as listed in paragraph A.7.(c) of the [draft] standard are excluded from the scope of the [draft] ISA for LCE. However, certain entities within a restricted category may be deemed to be LCEs for a particular jurisdiction. For example, an entity that provides post-employment benefits for a defined contribution plan but is otherwise non-complex (e.g., holds actively traded “level 1” investments only, has few transactions which by their nature are regular and simple, is not subject to additional regulatory oversight, has few participants). It may therefore be appropriate to modify the description of the category at A.7 (c)(iii) to allow the use of the [draft] ISA for LCE for audits of such entities based on set criteria.*
- ❖ *The nature of local industries and what may be deemed complex in that jurisdiction. It may be appropriate to add to the list of audits of entities restricted from using the [draft] ISA for LCE audits of entities in certain sectors (e.g., cryptocurrency, exploratory mining) that may be deemed of higher complexity in a particular market.*
- ❖ *Setting a quantitative threshold over which to exclude the audits of entities to be conducted using the [draft] ISA for LCE, based on key metrics of the entity (e.g., revenue, total assets) or the average number of employees during the period under audit.*

V. The Role of Firms and Practitioners

Firms

31. Firms are responsible for establishing policies or procedures in relation to the permitted use of the [draft] standard by the firm’s engagement teams. In doing so, the firm has regard to the limitations for use of the [draft] standard, including the specific restrictions in paragraph A.7. of the [draft]

standard, any further modifications or restrictions of such for the applicable jurisdiction, including the qualitative characteristic described in paragraphs A.9.–A.10. of the [draft] standard.

32. Firms also may further restrict use of the [draft] standard for particular classes of entities or industries based on the risk profile of the firm's clients.
33. Determinations by a firm in its relevant policies or procedures relating to the use of the [draft] standard should not conflict with or override the restrictions within the [draft] standard or any determinations made by legislative authorities or relevant local bodies as to the applicability of the [draft] standard in the relevant jurisdiction or region.

Engagement Teams

34. If a jurisdiction allows or does not restrict use of the standard, and the firm's policies or procedures allow use of the standard, the auditor is still required to evaluate whether the use of the standard is appropriate for a particular engagement (i.e., at the engagement level).
35. For specific engagements, the engagement partner is required to determine that the audit engagement is an audit of a LCE in accordance with Part A of the [draft] standard in order to use the [draft] standard when accepting or continuing an engagement (see [draft] standard Part 4, paragraph 4.2.1.). For this purpose, the engagement partner has regard to:
 - The list of entities for which the use of the standard is specifically restricted as set out in the local jurisdiction (see paragraph A.7. of the [draft] standard) as well as any relevant firm policies or procedures; and
 - The qualitative characteristics (see paragraphs A.9.–A.10. of the [draft] standard).
36. In undertaking procedures to understand the entity and its environment, the applicable financial reporting framework and the entity's system of internal control for the purpose of identifying and assessing risks of material misstatement, new information may come to the auditor's attention that may change the engagement partner's original determination to use the standard. Accordingly, there is a 'stand-back' requirement in Paragraph 6.8.2. of the [draft] standard for the engagement partner to evaluate the original determination (i.e., confirm that the original determination is still valid).
37. The standard also requires the auditor to stay alert throughout the audit for further information that could come to the auditor's attention that may change the judgment made in this regard.
38. If the [draft] standard is used for audit engagements other than those contemplated in its design, the auditor may not obtain sufficient appropriate audit evidence to support a reasonable assurance opinion. In such instance, the auditor also should not represent compliance with the [draft] ISA for LCE in the auditor's report.