

Audits of Less Complex Entities – Issues Paper and Due Process Considerations

Objectives of the Board Discussion

The objectives of this session are to:

- a) Approve the proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the ISA for LCE), as presented in **Agenda Item 2-B**; and
- b) Obtain direction regarding the way forward with respect to selected matters as set out in **Section III** of this paper.

Approach to the Board Discussion

Board members are requested to communicate any significant matters to the Less Complex Entities (LCE) Task Force (the Task Force) Chair and Staff by **Thursday, September 14, 2023 Close of Business**. This request is intended to assist the Task Force with the turnaround of the final pronouncement.

On **Monday, September 18, 2023**, the Task Force Chair and Staff will walk through the proposed ISA for LCE as set out in **Agenda Item 2-B** and refer to the matters highlighted in **Agenda Item 2-A**, as appropriate. After walking through **Agenda Item 2-B**, the Chair will ask the Board to provide input on the conforming amendments as set out in **Agenda Item 2-D**, and the selected matters as set out in **Section III** of this paper.

After the discussion with the Board on **Monday, September 18, 2023**, the Task Force may bring targeted matters for further discussion with the Board on **Tuesday, September 19, 2023**. The matters to be brought back to the Board will depend on the nature and extent of the Board's comments.

By **2pm EDT on Wednesday, September 20, 2023**, the Task Force will distribute an updated draft of the ISA for LCE. This draft will be used for the approval session on **Thursday, September 21, 2023**.

After the vote on the approval of the proposed ISA for LCE and, if the final pronouncement is approved, the Board will be asked whether the proposed ISA for LCE need to be re-exposed (see **Section IV**).

Board Discussion

Issues Paper

The following appendices to this Agenda Item have been presented:

Appendix 1	Task Force Members and Activities
Appendix 2	Reconciliation of ED-ISA for LCE Question Analysis
Appendix 3	Key Public Interest Matters Addressed
Appendix 4	Relevant Extracts from the IAASB's Due Process

Appendix 5	Outreach and Consultation Activities After Closure of Comment Period on ED-ISA for LCE
In addition to this issues paper, the following agenda items have been presented:	
Agenda Item 2-A	Explanation of Significant Changes to Proposed ISA for LCE
Agenda Item 2-B	Proposed ISA for LCE – Marked
Agenda Item 2-C	Proposed ISA for LCE – Clean
Agenda Item 2-D	Proposed Conforming Amendments
Agenda Item 2-E	Comparison of requirements in the ED-ISA for LCE to the proposed requirements in Agenda Item 2-B
Supplement 1 to Agenda Item 2	Respondent Summary Analysis
Supplement 1-01 to Agenda Item 2	Respondent Detailed Comments (Q21 – Effective Date)
Supplement 1-02 to Agenda Item 2	Respondent Detailed Comments (Q14 – Maintenance)
Supplement 1-03 to Agenda Item 2	Respondent Detailed Comments (Q15 – Adoption of Future Revisions)
Supplement 1-04 to Agenda Item 2	Respondent Detailed Comments (Q19 – Implementation Guidance)

Introduction

What Have We Done Since We Last Met?

1. **Appendix 1** sets out the members of the Task Force, as well as its activities.
2. Following direction provided by the Board in the June and July 2023 IAASB meetings, the Task Force proposed further revisions to the proposed ISA for LCE and proposed conforming amendments.
3. The Task Force also discussed the way forward regarding the questions in the Explanatory Memorandum (EM) to the Exposure Draft of the ISA for LCE (ED-ISA for LCE) that have not previously been discussed by the Board.
4. A reconciliation of the questions for respondents of ED-ISA for LCE (respondents), along with the date discussed is described in **Appendix 2**.

Liaison with Others

IAASB Consultation and Working Groups

5. IAASB Staff provided a draft of the proposed standard (based on the proposed drafts discussed in the June and July 2023 meetings) to the Professional Skepticism Consultation Group and Auditor Reporting Consultation Group for targeted input in their respective subject areas. IAASB Staff also liaised with the Technology Consultation Group and asked for relevant input related to technology in the proposed standard. Relevant revisions proposed are reflected in **Agenda Item 2-B**.

International Code of Ethics for Professional Accountants

6. Before the June 2023 IAASB meeting, IAASB Staff provided a draft of the ISA for LCE to the International Ethics Standards Board for Accountants' (IESBA) Staff for a targeted review of requirements relevant to ethics. Relevant revisions proposed by IESBA were included in the June 2023 papers. After the June 2023 meeting, IAASB Staff continued its liaison with IESBA addressing any changes subsequent to the June 2023 meeting.

Public Interest Issues

7. Throughout the development of the ISA for LCE, the Task Force has had the public interest in mind. The table included in **Appendix 3** to this agenda item sets out the key public interest issues identified by the IAASB in the [project proposal](#) approved in December 2020 and included in the EM to ED-ISA for LCE. **Appendix 3** to this agenda item also indicates how the public interest issues have been addressed in the latest draft of the proposed standard, taking into account the comments received in response to ED-ISA for LCE.

I. Proposed ISA for LCE

The Task Force Views and Recommendations

8. Following direction provided by the Board in the June and July 2023 IAASB meetings, the Task Force proposed further revisions to the proposed ISA for LCE. Please refer to **Agenda Item 2-B** for the proposed changes and **Agenda Item 2-A** for explanations of the significant changes.

Matters for Board Consideration

1. The Board is asked for their views on proposed revisions to the ISA for LCE as described in **Agenda Item 2-A**, and as presented in **Agenda Item 2-B**:
 - (a) The Preface and Authority;
 - (b) Parts 1–2;
 - (c) Parts 3–5;
 - (d) Part 6–7;
 - (e) Parts 8–9; and
 - (f) Part 10 and appendices.

II. Conforming Amendments

9. Based on a review of the IAASB's International standards, the Task Force proposes additional conforming amendments arising from the proposed ISA for LCE, as set out in **Agenda Item 2-D**. The additional proposed conforming amendments impact the:

- Preface;¹
- ISQM 1;²
- ISQM 2;³
- ISAE 3000;⁴
- ISRE 2400;⁵
- The International Framework for Assurance Engagements; and
- IAPN 1000.⁶

ISQM 1 and ISQM 2

10. The application material in ISQM 1 and ISQM 2 include several references to requirements in the International Standards on Auditing (ISAs) for guidance when conducting an audit of financial statements. The Task Force is of the view that only having references to the ISAs may confuse auditors who conduct an audit using the ISA for LCEs as there is no reference to the ISA for LCE.
11. To reinforce the standalone nature of the ISA for LCE, the Task Force is of the view that conforming amendments to ISQM 1 and ISQM 2 are warranted and considered the following two options:
- (a) Including in each paragraph that refers to the ISAs a reference to the corresponding requirement in the ISA for LCE;
 - (b) Adding an overarching paragraph that indicates that the ISA for LCE also includes requirements regarding quality management.
12. The Task Force concluded that an overarching principle was the best approach as it provides an appropriate reference to the ISA for LCE in the ISQMs, while balance the need for multiple amendments with no or limited incremental value to the ISQMs. Therefore, the Task Force proposes conforming amendments to ISQM 1 and ISQM 2 to acknowledge that, if the audit engagement is conducted in accordance with the ISA for LCE, the ISA for LCE also addresses the matters in the ISAs where references is made to.

¹ *Preface to The International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements*

² *International Standard on Quality Management (ISQM) 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

³ *ISQM 2, Engagement Quality Reviews*

⁴ *International Standard on Assurance Engagement (ISAE) 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

⁵ *International Standard on Review Engagements (ISRE) 2400 (Revised), Engagements to Review Historical Financial Statements*

⁶ *International Auditing Practice Note (IAPN) 1000, Special Considerations in Auditing Financial Instruments*

ISRE 2400

13. ISRE 2400, 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.
14. As the ISA for LCE will be an alternative to the ISAs to conduct audits of financial statements, the Task Force proposes conforming amendments of the ISRE 2400. When proposing the amendments, the Task Force considered the following two options:
 - (a) Adding a reference to the ISA for LCE in the requirement, such that the requirement reads:

“The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (ISAs) or the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE) and, accordingly, the practitioner does not express an audit opinion on the financial statements”.
 - (b) Removing the reference to the ISAs and instead adding a general reference to audit standards issued by the IAASB.

The Task Force concluded that the first option, although acceptable, unnecessarily increases the length of the requirement and therefore is of the view that a general reference to audit standards issued by the IAASB should be made (option 2) – see **Agenda Item 2-D**.

Other Conforming Amendments

15. In addition to the changes explained above, significant changes made by the Task Force from the version that was presented to the Board in June 2023 are explained in **Agenda Item 2-A**.

Matters for Board Consideration

2. The Board is asked for their views on proposed revisions to the Conforming Amendments as presented in **Agenda Item 2-D**.

II. Adoption & Implementation Matters

Question 21 – Effective Date

16. The section below summarizes the responses received to question 21 in the EM to ED-ISA for LCE, the themes noted, and the responses and recommendations proposed by the Task Force for discussion with the Board. Respondents’ feedback is presented in **Supplement 1-01 to Agenda Item 2**.
17. In the EM to 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 proposed ISA for LCE is a new standard and given the need for national due process and translation, as applicable. The IAASB asked for views on whether this would provide a sufficient period to support effective implementation of the proposed standard.

What We Heard

Effective Date

18. Generally, respondents supported the effective date for the ISA for LCE to be for financial reporting periods beginning at least 18 months after the approval of a final standard. Respondents were of the view that this would provide sufficient time to support effective implementation of the ISA for LCE.
19. However, there were respondents that had other views as described below:
 - (a) *18 Months is Too Short.* Respondents noted that 18 months is too short as they needed more time to implement the standard because of translation, and preparing their methodologies and audit tools. Respondents noted that preparing their methodologies and audit tools will take longer than for amendments of individual ISAs, since the ISA for LCE is a new standard that affects the entire audit. Where respondents specified a preferred period, generally they noted that 24 months would be sufficient.

In addition, respondents noted that there are efforts required in their jurisdiction and within firms relating to the Authority of the proposed standard. Respondents also noted that quality management policies and procedures and engagement level quality review processes will need to be developed and implemented in connection with ISQMs.
 - (b) *Support Shorter Periods than 18 Months.* Respondents 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.

Early Adoption

20. Generally, respondents supported early adoption of the ISA for LCE. Respondents noted that early adoption may bridge the gap between the urgency from certain users while allowing other users more time to adopt. Other respondents were of the view that early adoption should be allowed, as long as it is permitted in their respective jurisdiction.
21. Respondents who do not think early adoption should be permitted noted the significant impact of the ISA for LCE, the effort of implementation activities and the need to avoid confusion.

The Task Force Views and Recommendations

22. The Task Force acknowledged respondents' comments that the effective date may be seen as less important (see paragraph 19 (b) above) and noted that the ISA for LCE will be a voluntary alternative to existing standards (e.g., ISAs) to conduct audits of financial statements. However, the Task Force is of the view that an effective date is still needed for the ISA for LCE to align with the structure of the ISAs (i.e., ISAs have effective date) 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 tell when the previous version of the standard becomes out of date.
23. Taking into account the expected timeline for approval of the ISA for LCE (i.e., IAASB approval in September 2023 and Public Interest Oversight Board (PIOB) approval of due process in December 2023) and respondent's comments, the Task Force proposes that the ISA for LCE should be effective for audits of financial statements for periods beginning on or after December 15, 2025 (i.e., 2026 calendar year audits), with early adoption being permitted and encouraged.

24. In the Task Force's view, this proposed effective date is in the public interest because it would provide for an implementation period of approximately 24 months after PIOB approval of due process or 27 months after IAASB approval of the final standard. 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, jurisdictional / National Auditing Standard Setters (NSS)).
 - (b) Reflect the views of stakeholders as discussed at paragraphs 18 and 19.
25. The Task Force also considered an effective date for periods beginning on or after June 15, 2025, which would imply an implementation period of approximately 18 months after PIOB approval of due process or 21 months after IAASB approval of the final revised standard. However, the IAASB standards ordinary contain December effective date due to the number of December financial year-ends and an evolution in standard-setting over time that has resulted in a preference for a consistent date that takes into account the needs of stakeholders across jurisdictions that have adapted their adoption and implementation processes to a December implementation date.

Question 14 – Maintenance

26. This section summarizes question 14 in the EM to ED-ISA for LCE, the themes noted for the responses as presented in **Supplement 1-02 to Agenda Item 2**, and the responses and recommendations proposed by the Task Force for discussion with the Board.
27. In the EM to ED-ISA for LCE, the IAASB proposed that revisions to the proposed ISA for LCE will be made periodically when projects to revisit ISAs are undertaken. As part of each ISA project, it is intended that there will be explicit consideration of when the changes to the proposed ISA for LCE will be made. In addition, when developing an Exposure Draft (ED) for revisions to the proposed ISA for LCE, the IAASB would also consider any specific issues that have been brought to the attention of the IAASB regarding application of the proposed ISA for LCE.
28. Question 14 asked if the respondents agreed with the proposed approach of future updates and maintenance of the Standard and related supplemental guidance.

What We Heard

29. Respondents suggested three possible ways forward with respect to the timing of maintenance to the standard:
- Align revisions to the ISA for LCE with revisions to the ISAs;
 - Revise the ISA for LCE periodically; and
 - Only revise the ISA for LCE when needed.

Align revisions to the ISA for LCE with revisions to the ISAs

30. Generally, respondents agreed with the proposed approach for future updates and maintenance of the standard. Respondents noted the importance of having consistency between the ISAs and the ISA for LCE and were of the view that the timing of revisions to the ISAs and the ISA for LCE should be aligned. Respondents noted that discrepancies between the two standards could lead to confusion as well as operational problems (e.g., misalignment of methodologies and learning resources), and

difficulties when transitioning to ISAs is required. In addition, respondents noted that if the ISA for LCE is “outdated” compared to the ISAs, stakeholders may perceive an audit performed under the ISA for LCE as a lower quality audit, impacting the adoption of the standard.

31. However, respondents also noted that recent revisions to ISAs mainly pertained to complex matters more relevant to public interest entities (PIEs). Accordingly, proposed revisions to the ISAs should be considered carefully and the ISA for LCE should only be revised when the changes are relevant to LCEs to avoid increasing the length and complexity of the proposed standard unnecessarily. Respondents acknowledged that over time, this may result in increased divergence between the standards and suggested to maintain a mapping document between the ISAs and the ISA for LCE.
32. Respondents also suggested that the effective date for revisions to the ISAs and the ISA for LCE should be the same to avoid administrative burden for stakeholders.

Periodic Revisions

33. 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. It was noted that accumulating changes from the ISAs and revising the proposed ISA for LCE every two or three years will enable auditors to have sufficient time to digest and operationalize revisions to the ISA for LCE.
34. Respondent also noted that the proposed standard is a standalone standard and therefore does not need to be closely aligned with the ISAs. In addition, when adopting an approach of revisions on a periodic cycle, it was suggested that IAASB should consider “out of cycle” updates when urgent and significant matters relevant to the ISA for LCE arise.

Revisions Only When Needed

35. Certain respondents were of the view that the IAASB revises the proposed ISA for LCE only when urgent matters related to LCEs are being raised by stakeholders. When such matters arise, revisions to ISAs should also be considered.

Survey:

The Survey contained a specific question on whether the ISA for LCE should be updated continuously (i.e., as the ISAs are updated) or updated on a regular basis to provide a stable platform. Respondents had mixed views, with 50% of respondents agreeing that the ISA for LCE should be updated continuously. 46% of respondents were in favor of having a stable platform with updates on a regular basis and 4% had no view.

The Task Force Views and Recommendations

36. The Task Force is of the view that the proposed ISA for LCE must remain up to date and, to the greatest extent possible, consistent with the ISAs and agrees with respondents that proposed revisions must be relevant for LCEs. Therefore, the Task Force proposes that an ongoing LCE Working Group, composed of IAASB Staff and Board Members, is formed.
37. The purpose of this ongoing LCE Working Group is to review proposed revisions to the ISAs and, when revisions to the ISAs are relevant to LCEs, propose revisions to the ISA for LCE. The ongoing LCE Working Group will work independently and liaise with IAASB Task Forces and will have the

authority to decide if and how proposed revisions to the ISAs are amended in the ISA for LCE. The Task Force is of the view that revisions to the ISA for LCE should be:

- Developed and implemented concurrently with the relevant project to revise the ISAs.
- Exposed together with the proposed revisions to the ISAs and that the effective date of the revisions should be aligned.

Initial Period of Stability

38. The Task Force also reflected on the period of initial adoption and implementation of the ISA for LCE. As discussed in relation to the responses to Question 21, the ISA for LCE is a new standard and considerable effort will be required in terms of its adoption and implementation. For example, considerable effort will be needed from a policy and regulation perspective and from an application in practice perspective, including, firm policies or procedures, training, and audit methodology and enablement. In addition, once implemented, it will be important that experience and learning with the standard accumulates. Therefore, the Task Force is of the view that a period of stability would be required after the ISA for LCE is issued.
39. Also, the Task Force noted that the ISA for LCE is aligned with the ISAs that have been finalized at the date of publication and does not reflect revisions proposed to ISA 570 (Revised),⁷ ISA 240⁸ or ISA 500,⁹ or revisions resulting from PIE track 2.¹⁰ The Task Force is of the view that it would make sense that the first revision of the ISA for LCE considers revisions to these ISAs and how they affect the ISA for LCE and the results from a post-implementation review. A post-implementation review could be undertaken after an initial 24-month implementation period and at least two completed audit cycles using the standard (i.e., for December 2026 and 2027 year-ends).
40. The project proposal for a “ISA for LCE revisions project” would incorporate recommendations arising from the post-implementation review and proposed amendments resulting from the revisions of ISA 570 (Revised), ISA 240, ISA 500 and PIE track 2. The aim would be to finalize revisions to the ISA for LCE and have them be effective within 5 years since the first version of the ISA for LCE became effective (i.e., within 5 years from December 15, 2025).
41. For new standard setting projects that may require revisions to the ISA for LCE (i.e., projects other than the IAASB’s current projects to revise ISA 570 (Revised), ISA 240 or ISA 500), the approach described in paragraph 37 would apply. However, some flexibility may be needed to align with the effective date of revisions resulting from the “ISA for LCE revisions project.” After completion of the “ISA for LCE revisions project”, the approach of relevant revisions to the ISA for LCE consistent with projects to revise or develop ISAs will continue to apply. The ongoing LCE Working Group will also monitor the need for more immediate or timely action to respond to specific public interest issues or urgent matters that may arise.

⁷ ISA 570 (Revised), *Going Concern*

⁸ ISA 240, *Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

⁹ ISA 500, *Audit Evidence*

¹⁰ PIE – Proposed Narrow Scope Amendments to the ISQMs, ISAs and ISRE 2400 (Revised) for Track 2

Question 15 – Early Adoption of Future Revisions

42. The section below summarizes question 15 (i.e., views on early adoption for any subsequent revisions to the proposed ISA for LCE once effective), the themes noted, and the responses and recommendations proposed by the Task Force for discussion with the Board. Respondents' feedback is presented in **Supplement 1-03 to Agenda Item 2**.

What We Heard

43. Generally, respondents supported allowing early adoption of future revisions to the ISA for LCE.
44. Other respondents noted that early adoption should be allowed, except when the revisions are:
- (a) Tied to a new or revised law and that early adoption is dependent on that law.
 - (b) Major revisions in reporting requirements. It was noted that having comparable auditor's reports in the market is important in preventing confusion for stakeholders.
45. Respondents that did not support early adoption, were of the view that early adoption may create inconsistencies in the adoption date of the standard by different jurisdictions or engagements and thus could cause confusion.
46. Other respondents had the view that the approach to adoption should align with the corresponding ISAs. In other words, early adoption should be allowed for the ISA for LCE if early adoption was allowed for the corresponding ISA that caused the ISA for LCE to be updated. Respondents also noted that whether early adoption is allowed should be determined based on the significance and nature of the changes made to the ISA for LCE.

Survey:

The Survey contained a specific question on whether early adoption be allowed once the standard is revised for future updates, with 80% of respondents agreeing (13% answered "no" with a further 7% with no view). Responses were relatively consistent across stakeholder groups.

The Task Force Views and Recommendations

47. The Task Force discussed the respondents' comments and is of the view that there should be an option to adopt revisions early but is of the view that this should be assessed on a case-by-case basis for each project (in the same way that newly revised or issued ISAs may be adopted early).

Question 19 - Implementation Guidance

48. The section below summarizes question 19, the themes noted for the responses and the responses and recommendations proposed by the Task Force for discussion with the Board as presented in **Supplement 1-04 to Agenda Item 2**.
49. Question 19 asked respondents for their views on support and guidance that would be useful when implementing the proposed standard.

What We Heard

Implementation Guide

50. Respondents suggested that the IAASB and International Federation of Accountants (IFAC) work together to update and adapt the [Guide to Using ISAs in the Audits of Small and Medium-Sized Entities](#). Respondents noted that the guide is helpful in explaining the current requirements by using simple language with illustrative examples and case studies. Respondents also suggested developing examples comparing and contrasting audits conducted in accordance with the ISAs and audits conducted in accordance with the ISA for LCE.
51. Respondents noted some areas where additional support and guidance would be beneficial to ensure requirements are understood and applied correctly and consistently by users of the ISA for LCE, including related to:
 - (a) The Authority;
 - (b) Parts 5, 6 and 7 and in particular the sections in these parts on materiality, identification and assessment of risks of material misstatements, identification and responding to fraud risk, sampling and accounting estimates;
 - (c) The use of technology; and
 - (d) Transition to and from the ISAs.
52. Respondents noted the importance of providing such implementation guidance timely given the significant education efforts needed for the effective implementation of the standard.

Other Comments

53. Respondents also suggested to develop:
 - (a) An outreach plan (similar to the plan used for the implementation for ISQM 1) with roundtable discussions, webinars, and videos on key concepts and conferences.
 - (b) Other guides and materials to support implementation, such as Frequently Asked Questions, factsheets and practice statements.
 - (c) Targeted guides to the different stakeholders to increase acceptability and understanding of the standard. It was noted that such guides may focus on the key differences between the ISAs and the ISA for LCE, as well reinforcing the message that the ISA for LCE also leads to reasonable assurance.
 - (d) Sample audit files and engage with software providers to develop methodologies.

The Task Force Views and Recommendations

Implementation

54. The Task Force agrees that implementation guidance will need to be developed timely to enable stakeholders to appropriately implement the proposed ISA for LCE and will develop an implementation plan, which will leverage the experience obtained from recently issued IAASB standards. The IAASB will also collaborate with IFAC's Communication Team to effectively share all implementation materials to the stakeholders.

55. The Task Force proposes to develop the following material to help the implementation of the standard:
- (a) Supplemental guides on Authority and Reporting. These supplemental guides were previously published along with the ED-ISA for LCE and will be updated based on feedback received from respondents to the ED-ISA for LCE and Board members' input.
 - (b) First time implementation and transition guide addressing various matters raised by respondents, such as overview of key differences between the ISAs and the ISA for LCE, guidance related to specific technical areas as discussed in Paragraph 51(b), high-level mapping of ISAs to the ISA for LCE
 - (c) Factsheet; and
 - (d) Basis for Conclusions.
56. The Task Force also noted the requests from respondent to provide other helpful materials, such as example audit files or guidance on matters relevant to audit methodologies. The Task Force is of the view that audit firms, NSS and Professional Accountancy Organizations (PAOs) are best placed to develop such materials. The Task Force also acknowledges the support for the development of a guide on using the ISA for LCE but is of the view that the development of such a guide should be undertaken by IFAC or other stakeholders, leveraging previous work on the extant IFAC Guide to Using ISAs in the Audits of Small and Medium-Sized Entities.

Adoption

57. With respect to the adoption of the standard, the Task Force is planning to liaise with IFAC, NSS and PAOs, reach out to key stakeholders and develop materials which explain the benefit of using the ISA for LCE and include key messages on what the standard aims to achieve.

Matters for Board Consideration

3. The Board is asked for their views on the proposed way forward on:
- (a) The effective date;
 - (b) Future updates and maintenance;
 - (c) Early adoption of future revisions; and
 - (d) The implementation support and guidance.
4. The Board is asked whether there are any issues raised by respondents, in addition to those discussed in the IAASB meetings for June 2022, September 2022, December 2022, March 2023, June 2023, July 2023 and September 2023, that it considers should have been discussed by the IAASB.

IV. Due Process Considerations

Significant Matters Identified by the Task Force

58. In the Task Force's view, the significant matters it has identified as a result of its deliberations since the beginning of this project, and its conclusions and recommendations thereon, have been reflected in the agenda materials presented to the IAASB at its meetings. In the Task Force's view, there are

no significant matters discussed in the course of this project that have not been brought to the IAASB's attention.

Consideration of the Need for Re-Exposure

Overview

59. If the Board votes to approve the ISA for LCE as proposed, then a separate affirmative vote of the Board is required on whether the proposed standard needs to be re-exposed. Based on the draft as presented in **Agenda Item 2-B**, and prior to any changes proposed at the September 2023 IAASB meeting, the Task Force is of the view that the ISA for LCE does not warrant re-exposure.
60. This section sets out the Task Force's analysis of the provisions of the due process related to whether an approved standard needs to be re-exposed.

What Does the Due Process Require?

61. **Appendix 4** to this agenda item includes relevant extracts from the IAASB's due process. The main consideration in the due process is "whether there has been substantial change to the exposed document such that re-exposure is necessary." The related working procedures, which support the due process, include three examples of situations that may constitute potential grounds for a decision to re-expose:
 - (a) Substantial change to a proposal arising from matters not aired in the ED such that commentators have not had an opportunity to make their views known to the IAASB before it reaches a final conclusion;
 - (b) Substantial change arising from matters not previously deliberated by the IAASB; or
 - (c) Substantial change to the substance of a proposed international pronouncement.
62. The Task Force notes that there will almost always be changes to standards between an ED and the final standard to appropriately respond to comments received on exposure - this is true for the proposed standard. In forming its view on re-exposure, the Task Force has considered the potential grounds for re-exposures set out above and focused on these in determining its views for the purpose of this paper.

Considerations Relevant to the Development of the Task Force's View on Re-Exposure

Key Elements Addressed in Exposure Drafts¹¹

63. The EM to ED-ISA for LCE highlighted the project is intended to serve the public interest by:
 - (a) **Maintaining confidence in financial reporting of LCEs**—Small- and Medium-sized entities (SMEs) and other entities that are less complex are a critical source of employment and innovation and are embedded in local communities. Therefore, it is in the public interest to have high-quality audits that instill confidence and trust in this part of the economy.

¹¹ There have been two EDs for the proposed ISA for LCE:

- Part 1-9 were exposed in July 2021 (ED-ISA for LCE); and
- Part 10 was exposed in January 2023 (ED-ISA for LCE-Group Audits).

- (b) **Helping auditors of LCEs undertake consistent, effective, and high-quality audits—** Streamlined and targeted requirements that are appropriate to audits of LCEs result in the auditor obtaining reasonable assurance, performing an appropriately robust risk identification and assessment, and designing responses thereto, that are consistent and effective in the circumstances of the LCE, thereby maintaining audit quality.
- (c) **Being responsive to stakeholder needs—** Considering the need for requirements targeted at, and appropriate for, the circumstance of the audit of an LCE, and maintaining, a standard that is fit-for purpose, would be responsive to those stakeholders who have identified challenges with applying international standards in audits of LCEs.
- (d) **Promoting a more consistent application of the auditing standards to audits of LCEs—** The development of a global standard for audits of LCEs is expected to fill a perceived gap that is currently filled by individual jurisdictions who are developing their own standards for audits of LCEs, which may result in inconsistency in practice within the LCE audit environment. Such fragmentation is not in the public interest. Developing a global solution would be in the public interest to ensure consistency of application of the standards in an audit of an LCE, as well as supporting a common understanding of the procedures undertaken in an audit of an LCE.

Responses to, and Consideration of Nature and Extent of Changes since, ED-ISA for LCE and ED-ISA for LCE-Group Audits

64. Respondents to ED-ISA for LCE expressed support for the project to develop a separate standard for audits of LCE, but there were also views that the IAASB should not continue with the development of the separate standard. These matters were deliberated in the first discussions post-exposure and the Board supported the Task Force recommendation to continue to progress the project. The Task Force is of the view that the concerns and challenges raised have been appropriately addressed and that it is not in the public interest if the project is not completed or delayed.
65. The concerns and challenges raised by respondents to the ED-ISA for LCE and ED-ISA for LCE-Group Audits, and the changes made in response to those concerns and challenges are outlined below.

Significant Matters Raised by Respondents to the EDs	IAASB/Task Force Response
<p>The Authority Was Unclear</p> <p>Respondents noted the Authority in the ED was unclear and may lead to inconsistent or inappropriate use of the ISA for LCE. Respondents encouraged the IAASB to revise the Authority to be clear, reduce the extent of professional judgment in this regard and provide sufficient supporting guidance to implement consistently.</p>	<p>The Authority was updated to make clearer what the intended scope is, including:</p> <p>(a) Updating the list of prohibited entities.</p> <p>(b) Updating the qualitative characteristics to describe what is less complex, by better reflecting the typical nature and circumstances of an LCE for which the standard is designed and be more specific</p>

Significant Matters Raised by Respondents to the EDs	IAASB/Task Force Response
<p>Also, some respondents expressed that it was not clear as to the nature of the entities for which the ISA for LCE could be appropriately used.</p>	<p>(and direct) about describing each characteristic.</p> <p>(c) Introducing illustrative numerical indicators as part of the qualitative characteristics where appropriate.</p> <p>(d) Introducing the expectation for quantitative threshold(s) to be set at the jurisdiction level.</p> <p>These changes aim to clarify the range of entities for which the ISA for LCE is designed for, and to facilitate a common understanding by all stakeholders.</p>
<p>Need to Further Differentiate from the ISAs</p> <p>Respondents questioned how an audit performed in accordance with the ISA for LCE would differ from an audit performed using the full suite of ISAs.</p> <p>Respondents provided various suggestions on how to further differentiate the ISA for LCE from the ISAs and more appropriately reflect requirements and guidance that are proportionate to the typical nature and circumstances of an LCE.</p>	<p>Revised the requirements and described them in a more principles-based manner, that would achieve reasonable assurance in an audit of a “typical LCE” but without the granularity needed for audits of more complex entities. The revisions were made to specific areas identified as most impactful including below:</p> <p>(a) Risk identification and assessment, including the understanding of the entity’s system of internal control (i.e., Part 6 of the ISA for LCE)</p> <p>(b) Responsibilities for quality management</p> <p>(c) Documentation requirements</p>
<p>Concerns Related to the Standalone Nature of the ISA for LCE</p> <p>Respondents broadly supported the standalone nature of the ISA for LCE but there were concerns expressed related to the inability to refer to the ISAs and the sufficiency of guidance within the standard.</p> <p>Respondents also noted that even where the initial evaluation to use the ISA for LCE was</p>	<p>Reaffirmed the Board’s position about the standalone nature of the ISA for LCE and not to add an ability to “top-up” with ISA requirements for specific circumstances.</p> <p>In response to concerns that after the initial evaluation to use the ISA for LCE areas of complexity may be discovered, an accounting</p>

Significant Matters Raised by Respondents to the EDs	IAASB/Task Force Response
<p>performed appropriately, areas of complexity may still be discovered, or occur unexpectedly during the audit. It was noted that to transition to the ISAs would be burdensome, particularly when the complexity is discovered or occurred subsequent to the initial evaluation, is isolated and not deemed pervasive to the complexity of the entity as a whole. Accounting estimates were the most commonly raised area where such complexity may be discovered or occur.</p>	<p>estimate specific qualitative characteristic was added in the Authority. This qualitative characteristic is intended to help in the situation of having isolated or one-off accounting estimates that do not otherwise increase the complexity of the entity as a whole.</p> <p>With the change to the Authority, there may be isolated instances where “more complex” accounting estimates may be present that would not otherwise be scoped out through the limitations included in the Authority. Therefore, additional requirements were added in Part 7 related to accounting estimates.</p> <p>In addition, where needed, requirements and Essential Explanatory Material (EEM) were added in areas where respondents raised concerns about the sufficiency of guidance.</p>
<p>Include Audits of Group Financial Statements (Group Audits)</p> <p>Respondents generally supported the inclusion of group audits. Respondents noted that some group structures are less-complex in nature (i.e., that being a group audit did not inherently lead to complexity) and therefore the blanket prohibition of group audits was inappropriate.</p> <p>On balance, there was support for presenting group audit requirements in a separate part rather than including requirements within the relevant parts of the ISA for LCE.</p> <p>Respondents of ED-ISA for LCE-Group Audits were generally supportive of the changes to the Authority, and the requirements and EEM included in Part 10 that were added to address group audits.</p>	<p>Group audit related content was developed and included in a separate Part (Part 10, <i>Audits of Group Financial Statements</i>). Also, the Authority was updated to include a specific prohibition for the use of component auditors (except when the component auditor’s involvement is limited to circumstances in which a physical presence is needed for a specific audit procedure for the group audit) as well as additional qualitative characteristics relevant for group audits.</p> <p>Part 10 and the updated Authority were included in ED-ISA for LCE-Group Audits and were exposed in January 2023.</p>

Task Force Views on Whether the Changes Necessitate Re-Exposure

66. The Task Force considered the major changes from the ED-ISA for LCE 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. Some of these elements have been modified and clarified in response to comments received on exposure (e.g., the approach to identify and assess risk of material misstatements and the inclusion of requirements for more complex accounting estimates). These changes 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. Group audits were not included in the scope of the original ED-ISA for LCE. When the decision to exclude group audits was reconsidered, an ED was developed and exposed for public comments.
 - (c) The changes to the text post-exposure are in response to feedback from respondents to the ED and do not fundamentally or substantively change the proposals in the ED.
67. Further, the Task Force 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 as presented in **Appendix 5**.
68. On the basis of the above, the Task Force considers that re-exposure is not necessary. All of the members of the Task Force are in agreement with this conclusion.

Task Force Members and Activities

Task Force Members

1. The Task Force consists of the following members:
 - Kai Morten Hagen, IAASB Member and Task Force Chair
 - Julie Corden, IAASB Member
 - Chun Wee Chiew, IAASB Member
 - Sachiko Kai, IAASB Member
 - Vivienne Bauer, IAASB Technical Advisor
2. Further information and all posted documents relating to this project can be found [here](#).

Task Force Activities Since the July 2023 IAASB Meeting

3. The Task Force held one in-person meeting and one virtual meeting.

Outreach Since the July 2023 IAASB Meeting

4. The Task Force Chair and IAASB Staff attended the following outreach events or meetings in which the proposed ISA for LCE was discussed:
 - LCE Reference Group Meeting.
 - World Bank.

Appendix 2

Reconciliation of ED-ISA for LCE Question Analysis

The below table presents a reconciliation of the questions provided to respondents of ED-ISA for LCE, along with the date of when a detailed analysis of comments was presented to the Board for discussion.

Q#	Text of Question per Explanatory Memorandum (ED-ISA for LCE)	Detailed Analysis to Board
1	Views are sought on:	
1(a)	The standalone nature of the proposed standard, including detailing any areas of concern in applying the proposed standard, or possible obstacles that may impair this approach?	June 2022
1(b)	The title of the proposed standard.	June 2022
1(c)	Any other matters related to ED-ISA for LCE as discussed in this section (Section 4A).	June 2022
2	Do you agree with the proposed conforming amendments to the IAASB Preface? If not, why not, and what further changes may be needed?	June 2023
3	Views are sought on the Authority (or scope) of ED-ISA for LCE (Part A of the proposed standard). In particular:	
3(a)	Is the Authority as presented implementable? If not, why not?	June 2022
3(b)	Are there unintended consequences that could arise that the IAASB has not yet considered?	June 2022
3(c)	Are there specific areas within the Authority that are not clear?	June 2022
3(d)	Will the Authority, as set out, achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard?	June 2022
3(e)	Is the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions clear and appropriate?	June 2022
4	Do you agree with the proposed limitations relating to the use of ED-ISA for LCE? If not, why and what changes (clarifications, additions or other amendments) need to be made? Please distinguish your response between the:	
4(a)	Specific prohibitions	June 2022

Q#	Text of Question per Explanatory Memorandum (ED-ISA for LCE)	Detailed Analysis to Board
4(b)	Qualitative characteristics.	June 2022
5	Regarding the Authority Supplemental Guide:	
5(a)	Is the guide helpful in understanding the Authority? If not, why not?	June 2022
5(b)	Are there other matters that should be included in the guide?	June 2022
6	Are there any other matters related to the Authority that the IAASB should consider as it progresses ED-ISA for LCE to finalization?	June 2022
7	Views are sought on the key principles used in developing ED-ISA for LCE as set in this Section 4C. Please structure your response as follows:	
7(a)	The approach to how the ISA requirements have been incorporated in the proposed standard.	June 2022
7(b)	The approach to the objectives of each Part of the proposed standard.	December 2022
7(c)	The principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management.	March 2023 & June 2023
7(d)	<p>The approach to EEM including:</p> <ul style="list-style-type: none"> (i) The content of the EEM, including whether it serves the purpose for which it is intended. (ii) The sufficiency of EEM. (iii) The way the EEM has been presented within the proposed standard. 	December 2022
8	Please provide your views on the overall design and structure of ED-ISA for LCE., including where relevant, on the application of the drafting principles	June 2022
9	Please provide your views on the content of each of Parts 1 through 8 of ED-ISA for LCE, including the completeness of each part. In responding to this question, please distinguish your comments by using a subheading for each of the Parts of the proposed standard.	March 2023 & June 2023
10	For Part 9, do you agree with the approach taken in ED-ISA for LCE with regard to auditor reporting requirements, including:	

Q#	Text of Question per Explanatory Memorandum (ED-ISA for LCE)	Detailed Analysis to Board
10(a)	The presentation, content and completeness of Part 9.	June 2023
10(b)	The approach to include a specified format and content of an unmodified auditor's report as a requirement?	June 2023
10(c)	The approach to providing example auditor's reports in the Reporting Supplemental Guide.	June 2023
11	With regard to the Reporting Supplemental Guide:	
11(a)	Is the support material helpful, and if not, why not?	June 2023
11(b)	Are there any other matters that should be included in relation to reporting?	June 2023
12	Are there any areas within Parts 1–9 of the proposed standard where, in your view, the standard can be improved? If so, provide your reasons and describe any such improvements. It will be helpful if you clearly indicate the specific Part(s) which your comments relate to.	Mapped to other Qs.
13	Please provide your views on transitioning:	
13(a)	Are there any aspects of the proposed standard, further to what has been described above, that may create challenges for transitioning to the ISAs?	June 2023
13(b)	What support materials would assist in addressing these challenges?	June 2023
14	Do you agree with the proposed approach to the future updates and maintenance of the Standard and related supplemental guidance?	September 2023
15	For any subsequent revisions to the standard once effective, should early adoption be allowed? If not, why not?	September 2023
16	Should a separate Part on the ISA-800 series be included within ED-ISA for LCE? Please provide reasons for your response.	March 2023
17	In your view, would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion and for which the proposed standard has been developed? If not, why not. Please structure your comments to this question as follows:	
17(a)	Whether the proposed standard can, and will, be used in your jurisdiction.	June 2022

Q#	Text of Question per Explanatory Memorandum (ED-ISA for LCE)	Detailed Analysis to Board
17(b)	Whether the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.	June 2022
17(c)	Whether there are aspects of the proposed standard that may create challenges for implementation (if so, how such challenges may be addressed).	June 2023
18	Are there any other matters related to ED-ISA for LCE that the IAASB should consider as it progresses the proposed standard to finalization?	Mapped to other Qs.
19	What support and guidance would be useful when implementing the proposed standard?	September 2023
20	Translations—recognizing that many respondents may intend to translate the final ISA for LCE in their own environments, the IAASB welcomes comment on potential translation issues noted in reviewing ED-ISA for LCE.	Mapped to other Qs.
21	Effective Date—Recognizing ISA for LCE is a new standard, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning at least 18 months after the approval of a final standard. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA for LCE.	September 2023
22	The IAASB is looking for views on whether group audits should be excluded from (or included in) the scope of ED-ISA for LCE. Please provide reasons for your answer.	June 2022
23	Respondents in public practice are asked to share information about the impact of excluding group audits from the scope of ED-ISA for LCE on the use of the proposed standard. In particular:	
23(a)	Would you use the standard if group audits are excluded? If not, why not?	June 2022
23(b)	Approximately what % of the audits within your firm or practice would be group audits that would likely be able to use ED-ISA for LCE (i.e., because it is likely that such group audits could be considered less complex entities for the purpose of the proposed standard) except for the specific exclusion?	June 2022
23(c)	What common examples of group structures and circumstances within your practice would be considered a less complex group.	June 2022

Q#	Text of Question per Explanatory Memorandum (ED-ISA for LCE)	Detailed Analysis to Board
24	<p>If group audits are to be included in the scope of ED-ISA for LCE, the IAASB is looking for views about how should be done (please provide reasons for your preferred option):</p> <p>(a) The IAASB establishes a proxy(ies) for complexity for when the proposed standard may be used (“Option 1 - see paragraph 169); or</p> <p>(b) ED-ISA for LCE sets out qualitative characteristics for complexity specific to groups (Option 2 - see paragraph 176), to help users of the proposed standard to determine themselves whether a group would meet the complexity threshold.</p>	June 2022
25	<p>Are there other ways that group audits could be incorporated into the scope of the proposed standard that is not reflected in the alternatives described above? For example, are there proxies for complexity other than what is presented in paragraph 169 that the IAASB should consider?</p>	June 2022
26	<p>If group audits are included in ED-ISA for LCE, how should the relevant requirements be presented within the proposed standard (please provide reasons for your preferred option):</p> <p>(a) Presenting all requirements pertaining to group audits in a separate Part; or</p> <p>(b) Presenting the requirements pertaining to group audits within each relevant Part.</p>	June 2022

Appendix 3

Key Public Interest Matters Addressed

Key Public Interest Matter	Description of Changes Made to Address Identified Key Public Interest Matters	Relevant Part in the Proposed 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 • 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>	Part A
	<p><i>Qualitative standard-setting characteristics:</i>¹² 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,</p>	

¹² 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 (PIF) that was published as part of the Monitoring Group recommendations (July 2020), [Strengthening the International Audit and Ethics Standard-Setting System](#). Nevertheless, the Task Force has provided an indication in this table of the qualitative standard-setting characteristics of the PIF that are of most relevance to the standard-setting actions (i.e., the “Changes Made”) 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 Changes Made to Address Identified Key Public Interest Matters	Relevant Part in the Proposed ISA for LCE
	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.	
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 corroborative or contradictory audit evidence, have also been incorporated within the ISA for LCE.</p>	Throughout the standard
	<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,¹³ or national requirements that are at least as demanding. 	Part 1 and Part 3

¹³ ISQMs include: ISQM 1 and ISQM 2. 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 Changes Made to Address Identified Key Public Interest Matters	Relevant Part in the Proposed ISA for LCE
	<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>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>Throughout the standard</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>Part 1 to Part 10</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><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</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,</p>	<p>Throughout the standard</p>

Key Public Interest Matter	Description of Changes Made to Address Identified Key Public Interest Matters	Relevant Part in the Proposed ISA for LCE
Audits of LCEs	specific communication requirements (where applicable) and specific documentation requirements (where applicable).	
	<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 guidelines ¹⁴ were applied. 	Throughout the standard
	<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 	The Authority Supplemental Guide	

¹⁴ Complexity, Understandability, Scalability and Proportionality (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 Changes Made to Address Identified Key Public Interest Matters	Relevant Part in the Proposed ISA for LCE
	<p>authorities or relevant local bodies with standard setting authority, firms and auditors.</p> <ul style="list-style-type: none"> 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. 	The Reporting Supplemental Guide

Appendix 4

Relevant Extracts from the IAASB's Due Process

The matter of re-exposure is addressed in the IAASB's [Due Process and Working Procedures](#), paragraphs 23 and A40-A42.

23. After approving the final revised content of an exposed international pronouncement, the PIAC¹⁵ votes on whether there has been substantial change to the exposed document such that re-exposure is necessary. An affirmative vote in accordance with the PIAC's terms of reference that re-exposure is necessary is required to issue a re-exposure draft. The basis of the PIAC's decisions with respect to re-exposure is recorded in the minutes of the PIAC meeting at which the related project is discussed. (Ref: Para. A40-A42)

...

Re-Exposure (Ref: Para. 23)

- A40. When an exposure draft has been subject to many changes, a summary comparative analysis is presented to the PIAC. This analysis shows, to the extent practicable, the differences between the exposure draft and the proposed final international pronouncement.
- A41. The senior staff member of the PIAC, in consultation with the Chair of the PIAC and chair of the Project Task Force, advises the PIAC on whether a draft international pronouncement, or part thereof, needs to be re-exposed.
- A42. Situations that constitute potential grounds for a decision to re-expose may include, for example: substantial change to a proposal arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known to the PIAC before it reaches a final conclusion; substantial change arising from matters not previously deliberated by the PIAC; or substantial change to the substance of a proposed international pronouncement.

¹⁵ Public Interest Activity Committee, i.e., the IAASB.

Appendix 5**Outreach and Consultation Activities After Closure of Comment Period on ED-ISA for LCE**

In addition to regular updates to the IAASB's Consultative Advisory Group (September 2022, March 2023 and September 2023) and general outreach activities, the following outreach was undertaken specifically on the ISA for LCE, after the closure of the comment period on ED-ISA for LCE (i.e., since January 31, 2022).

Q2 of 2022

- Conference & Roundtables on Progressing the New Proposed Standard for Audits of Less Complex Entities – Paris, France (Seidenstein, Hagen, Agélii, Almond, Bauer, Chiew, Corden, Diolas, Jui, Kai, Shannon, Tracq-Sengeissen, Botha, Bahlmann, Fairchild)
- IAASB NSS Meeting – By videoconference (Hagen, Fairchild)
- Meeting with the Reference Group¹⁶ – By videoconference (Hagen, Fairchild)

Q3 of 2022

- Meeting with the Chair of the International Forum of Independent Audit Regulators' (IFIAR) Standards Coordination Working Group (SCWG) – Amsterdam, Netherlands (Seidenstein, Botha, van den Hout)
- Meeting with IFIAR's SCWG– By videoconference (Hagen, Seidenstein, Botha, van den Hout, Fairchild)

Q4 of 2022

- Meeting with IFAC Small and Medium Practices (SMP) Advisory Group – By videoconference (Hagen, Fairchild, van den Hout)
- Participation at Committee for European Auditing Oversight Bodies, joint meeting of the International Auditing Standards and Inspections Subgroups – Amsterdam, Netherlands (Seidenstein, Botha, van den Hout)
- Meeting with the Reference Group– By videoconference (Hagen, Fairchild, van den Hout)
- Participation at meeting of the International Association of Insurance Supervisors, Accounting and Auditing Working Group – By videoconference (Seidenstein, Botha)

Q1 of 2023

- Webinar: Audits of Less Complex Entities Update – held jointly with IFAC and European Federation of Accountants and Auditors for SMEs – (Hagen, Fairchild, van den Hout)
- Meeting with Representatives of IFIAR's SCWG – By videoconference (Seidenstein, Botha)

¹⁶ To receive real-time user feedback the IAASB leveraged an international "Reference Group," ([the LCE Reference Group](#)) comprised of representatives from the LCE community.

- Meeting with Leadership and Technical Staff of the Institute of Chartered Accountants in England and Wales – By videoconference (Seidenstein, Botha)
- Meeting with the Reference Group – By videoconference (Hagen, Fairchild, van den Hout)

Q2 of 2023

- IFAC's SMP Advisory Group meeting – By videoconference (Hagen, Fairchild, van den Hout)
- Presentation to The Edinburgh Group – New York, USA (Botha)
- Presentation at the Forum of Firms, Audit Quality Event with Latin America and Caribbean Region members – Sao Paulo, Brazil (Botha)
- NSS – By videoconference (Hagen, Fairchild, van den Hout)
- Meeting with the Reference Group – By videoconference (Hagen, Fairchild, van den Hout)

Q3 of 2023

- Meeting with the World Bank – By videoconference (Hagen, Fairchild, van den Hout)