

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

Adoption Guide

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IAASB

International Auditing
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Standards Board

This Adoption Guide has been prepared by the Staff of the IAASB. The objective of this Adoption Guide is to help jurisdictions with the adoption of the ISA for LCE.

This staff-prepared publication does not amend or override the ISA for LCE, the text of which alone is authoritative. The [ISA for LCE](#) and Basis for Conclusions (explaining the Board's rationale for the proposals as reflected in the standard) were published in December 2023.

This publication leverages the adoption steps as described in the IFRS Foundation Adoption Guide.¹

Introduction

The International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the ISA for LCE) is a new stand-alone auditing standard available for auditors of less complex entities. The ISA for LCE is an alternative standard to the International Standards on Auditing (ISAs) when auditing the financial statements of less complex entities. Due to its stand-alone nature, jurisdictions must decide whether or not to adopt the standard for use by auditors in their jurisdictions in auditing the financial statements of less complex entities as contemplated in the ISA for LCE.

There is no standard approach to adopt a standard as each jurisdiction is different, with its own auditing profession structure and oversight, as well as regulatory interests and requirements. That said, we have identified some common steps and approaches, together with some common pitfalls which are outlined in this guide.



¹ IFRS Foundation Adoption Guide (2013), www.ifrs.org/use-around-the-world/adoption-and-copyright/

Step 1: Setting up for Success



Careful planning, commitment and a complete understanding of the implications are important when adopting the ISA for LCE. Decisions that are not made at the beginning either have to be made later, with more difficulty, or go unmade and cause the adoption process to flounder. Having the right people and organizations to carry out the adoption of the ISA for LCE is central to ensure a successful adoption.

Designate a Leader

Although the adoption of the ISA for LCE is a collective effort, it is best when one organization drives the process. Ideally, this should be the statutory authority that has the responsibility to adopt auditing standards. Whatever organization fills the role, all stakeholders need to agree that this body is the team leader.

The lead organization will have to advocate for the adoption of the ISA for LCE, provide strategic direction and create conditions for success.

Build Consensus

Reaching a decision regarding the adoption of the ISA for LCE may require consensus. As for any project, having buy-in from stakeholders is crucial. Having a clear consensus on “why” the ISA for LCE must be adopted in one’s jurisdiction is a key step in the adoption of the standard. The “why” question and how it is answered may differ across jurisdiction.

The ISA for LCE can be a welcome addition to the suite of auditing standards. To help in building and achieving consensus, the IAASB has developed resources highlighting the key benefits of adopting the ISA for LCE.

Some jurisdictions may focus on the impact that auditors may see in their day-to-day operations with a simplified and tailored standard to the audits of less complex entities. Others may emphasize that using a global standard, focused on audits of less complex entities, will help build trust in the market and ease access to foreign capital markets. Others may also attach high value to the ISA for LCE as an enabler in further developing the auditing profession and/or may conclude that the costs of maintaining a high-quality national auditing standard exceeds the benefits of adopting a global standard.

Key Benefits of the ISA for LCE

- It is a standalone standard that is **proportionate and tailored to the specific needs of an audit of less complex entities**, recognizing the importance of smaller businesses.
- It will help **maintain confidence in financial reporting and promote the consistent application** of auditing standards to audits of LCEs.
- It provides the same level of assurance as an audit performed under the ISAs – **Reasonable assurance**.

Refer to the [ISA for LCE web page](#) for access to all materials developed by the IAASB.

Obtain Copyrights and Plan for Translation

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The translation of the ISA for LCE may be an important aspect in a jurisdiction's decision to adopt the ISA for LCE. For any jurisdiction that wishes to adopt the ISA for LCE in a language other than English, it is important to ensure that the translation is of high-quality and that the standard is rendered accurately and completely into the jurisdiction's language. This will also contribute to the consistent global implementation of the ISA for LCE. Therefore, if applicable to a jurisdiction, it is recommended that the translation is dealt with in the early stage of the adoption process.

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Step 2: Plan



“If you fail to plan, you plan to fail.” This adage emphasizes the importance of foresight and preparation. Without a plan, the success rate of adopting the ISA for LCE decreases significantly.

Set up an Adoption Committee

It is important to form an adoption committee who will monitor the process and addresses the problems along the way as challenges will arise during the adoption process, no matter how well the process is planned.

The adoption committee focuses on the adoption of the ISA for LCE in a jurisdiction and can be:

- A collection center to identify problems and resolve issues;
- A distribution center for sharing experiences, both local and international; or
- An analysis center for articulating problems and the characteristics of local law, the auditing profession and its oversight and business practices prior to engaging with others (see **section Identify Jurisdictional Issues**).

In its role, it is important that the adoption committee engages with stakeholders within the jurisdiction and internationally. The adoption committee’s role is not to interpret the ISA for LCE nor to develop an audit methodology based on the ISA for LCE.

The IAASB recommends that the committee include representatives from all major stakeholder groups, including:

- *Local auditing standard setter:* The local auditing standard setter understands the structure and practical dynamics of the local auditing profession and the implementation of auditing standards. The local standard setter can act as a liaison to understand the adoption in other jurisdictions.
- *Regulators:* Regulators will enforce the application of the ISA for LCE.
- *Professional Accountancy Organizations:* At a local level, professional accountancy organizations may develop training, guidance, and tools to help their members achieving high-quality audits and promote the assurance and auditing standards that reflect the evolving needs of the accounting industry. Globally, they can work together with other professional accountancy organizations to build a stronger accounting profession.
- *Audit firms:* Audit firms are the main users of the ISA for LCE and will have to make changes to their methodology to operationalize the standard. Audit firms can act as collecting agents for questions that the adoption committee should address. In addition, audit firms with international networks can act as a liaison to understand the adoption in other jurisdictions.
- *Users of financial statements:* Audits of financial statements of less complex entities are often conducted for a variety of reasons, including to ease access to credit and to support owner-manager and management’s needs. It will be important for users of financial statements to understand the applicability and scope of the ISA for LCE, as well as its basis and the related auditor’s report.

- *Academics:* They will design the curriculum for upcoming generations of students and the training for today's auditors.

It will be important that the adoption committee is able to rely on experts who are familiar with the ISAs to answer technical question about the ISA for LCE throughout the adoption process. Although the ISA for LCE is a stand-alone standard that is separate from the ISAs, the ISA for LCE is based on the core principles of the ISAs.

Define Targets and Deadlines

Creating a roadmap with defined tasks and milestones to achieve in a set timeline will keep you on the right track for successfully adopting the standard. Having a clear plan will ensure that the adoption committee is working together to meet the targets and deadlines. The IAASB recommends publishing the plan publicly to establish accountability for everyone involved.

Identify Jurisdictional Issues

As each jurisdiction is different, each jurisdiction will face different challenges when adopting the ISA for LCE. To ensure that the project plan can be executed as smoothly as possible, it will be important to identify key aspects to be addressed, including specific issues in local legislation as early as possible to allow sufficient time to identify and develop solutions.

For example, one issue that may arise in a jurisdiction relates to the legal framework for statutory audits, auditing standards and the oversight of auditors. In some jurisdictions, local laws and regulations specifically state that an audit of historical financial statement must be performed in accordance with the ISAs. In this case, the committee may want to reach out to legal advisors to understand if and how the legislation should be modified to allow the use of the ISA for LCE.

Another example where a jurisdictional issue may arise is when a jurisdiction has its own national requirements for quality management. In this scenario, the jurisdiction will need to consider if conforming amendments to such requirements are necessary to integrate the ISA for LCE, similar to the amendments made to the International Standards on Quality Management upon the publication of the ISA for LCE.

Identify and Allocate Resources

The IAASB recognizes that resources are needed to adopt the ISA for LCE, including resources to:

- Promote the use of the standard;
- Develop material to address jurisdictional matters, if any;
- Answer questions from practitioners and regulators; and
- Help practitioners with the implementation of the standard.

Step 3: Engage with Others



Engaging with others may help you to answer questions that you may have or to identify successes and challenges during the adoption of the ISA for LCE. You are not alone!

Connect with Counterparts

Since the publication of the ISA for LCE in December 2023, jurisdictions have initiated discussion or are preparing to adopt the ISA for LCE. Although each jurisdiction is different, the adoption of the ISA for LCE will have similarities. Communication with jurisdictions that are going through the same process can help identify potential issues and highlight best practices.

Reach out to the IAASB

The IAASB's resources are limited, but there are several ways we can assist you. For example:

- We do not have a formal process to address questions, but we do have a long-established policy of responding to questions from our stakeholders. Staff responses are not an official position of the IAASB or IFAC, but they can help local officials who are trying to resolve questions.
- We developed adoption and implementation materials for the ISA for LCE, which can be accessed on our website: [ISA for LCE web page](#).
- We could participate in jurisdictional or regional events about the adoption of the ISA for LCE.

Step 4: Tailor to the Authority



The “Authority” (Part A) of the ISA for LCE sets out the intended scope of the standard, including limitations for using the standard and explaining the responsibilities of legislative or regulatory authorities or relevant local bodies with standard-setting authority to ensure the appropriate use of the ISA for LCE in their jurisdictions.

Decisions about the required or permitted use of the ISA for LCE rest with individual jurisdictions. The Authority anticipates that legislative or regulatory authorities or relevant local bodies with standard-setting authority will further define the scope of the ISA for LCE to assist in the consistent and appropriate use of the ISA for LCE in a jurisdiction. This specifically applies to:

- Defining certain classes of entities that exhibit public interest characteristics; and
- Determining quantitative thresholds.

Defining Certain Classes of Entities that Exhibit Public Interest Characteristics

Legislative or regulatory authorities or relevant local bodies with standard-setting authority may modify certain classes of entities for which the use of the ISA for LCE is prohibited. However, none of the classes of entities can be removed. When modifying these classes of entities for the use of the ISA for LCE, legislative or regulatory authorities or relevant local bodies with standard-setting authority also may refer to entities that are specified in law or regulation, or other professional standards when defining public interest entities.

Determining Quantitative Thresholds

The ISA for LCE anticipates that legislative or regulatory authorities or relevant local bodies with standard-setting authority will determine quantitative thresholds (e.g., revenue, assets or employee number limits) for use of the ISA for LCE in their jurisdiction. In doing so, it is relevant to also consider definitions used in jurisdictions for different reasons than for determining the Authority of the LCE (e.g., definitions that drive the availability of grants or assistance, or regulatory requirements for when an audit is required or what financial reporting framework should be used). These definitions illustrate the range of what may be considered “small” in the jurisdiction.

For more information on tailoring the Authority, please refer to the IAASB's [Authority of the Standard Supplemental Guidance](#).

Step 5: Promote the ISA for LCE



A communication plan is key to ensure that stakeholders will use the ISA for LCE. The communication plan may include:

- *Key Messages:* We recommend that you identify a few key messages that you will be repeating in many, if not all communications. You may also leverage the messages the IAASB has been using in its publications.
- *Delivery Channels:* Consider different communication methods. Some information may be best shared in real-time through webinars, while other messages can be conveyed via guides and publications.
- *Communication Schedule:* Create a schedule for sharing specific information and connecting with stakeholders with an aim to balance the frequency of the communication – too frequent updates can overwhelm individuals, while too infrequent updates may lead to gaps in understanding.

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