

FREQUENTLY ASKED QUESTIONS ON THE ISA FOR LCE

The International Standard on Auditing for Audits of Less Complex Entities

The IAASB's new standalone standard for financial audits of less complex entities, *The International Standard on Auditing for Audits of Financial Statements of Less Complex Entities*— or the ISA for LCE— was issued in December 2023. It is effective for audits of financial statements of less complex entities for periods beginning on or after December 15, 2025.

What is the ISA for LCE?

The ISA for LCE is the new IAASB standard for financial audits of less complex entities. It is a standalone global auditing standard that is proportionate, tailored and designed specifically for smaller and less complex businesses. Built on the foundation of the International Standards on Auditing (ISAs), audits performed using this standard provide the same level of assurance for eligible audits: reasonable assurance. It will help maintain confidence in financial reporting and promote the consistent application of auditing standards to less complex entities.

Why is the ISA for LCE needed?

In the world of auditing, not all businesses are the same—nor are their audits. The audit of a corner bakery is very different from an audit of a large multinational. The IAASB's responsibility to set auditing standards in the public interest covers the entire spectrum of the economy, including multinationals and less complex entities.

Smaller, less complex entities make crucial contributions to the world economy and account for the great majority of audits globally. At the same time, increasingly complex structures and transactions need to be addressed in the ISAs. This complexity in the ISAs could pose challenges for audits of less complex entities and, therefore, the IAASB has developed the ISA for LCE to support these audits.

How does the ISA for LCE help auditors who perform audit engagements for less complex entities?

The ISA for LCE is tailored to the specific needs of an audit of less complex entities. In addition, the ISA for LCE was designed with an intuitive structure, following the flow of an audit and with clear, understandable and concise language. These make it easier to navigate for auditors who support these types of engagements.

All the elements of the standard recognize the importance of smaller and less complex businesses and that their audit needs are different. Not lesser than. Different. This includes the guidance in the standard. The

illustrations provided are tailored to less complex entities and condensed to only include what is ‘essential’ for the auditor.

In short, it will help auditors of less complex entities deliver consistent and effective high-quality audits.

Since so many less complex entities are supported by small- and medium-sized practices, the standard also takes into account what these firms or practitioners need to use the standard.

Does using the ISA for LCE change the quality of the audit or mean less work is needed for an audit?

The ISA for LCE does not reduce the quality of the audit or necessarily mean less work. It is a *different type* of audit, not a *lesser* audit. It helps auditors focus on aspects of the audit that are relevant for less complex entities. It is about doing the right work, including amount of work, in the right areas, and having proportionate requirements to drive that work. Requirements that are based on the underlying concepts from the ISAs and that are proportionate to the typical nature and circumstances of a less complex entity support the consistent performance of quality audit engagements in this market segment.

What level of assurance is provided under the ISA for LCE?

The ISA for LCE provides the same level of assurance as an audit performed under the ISAs: reasonable assurance.

When can the ISA for LCE be used?

It is the *nature* of the entity that determines if this standard can be used. Are the business activities, organizational and ownership structures, finance function, technology, accounting and financial reporting *less complex*? Does your jurisdiction and firm allow it to be used? If so, the standard can likely be used.

If the entity audited is a listed entity or an entity that has public interest characteristics, the standard cannot be used.

The ISA for LCE also can be used to perform audits of group financial statements, if eligible. The group and its entities or business units are evaluated under the same criteria as discussed above, including the same qualitative characteristics, but in the context of the group. In addition, the group structure, access to information or people and the consolidation process cannot be complex. However, the use of the ISA for LCE is prohibited for group audits when component auditors are involved, 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 (e.g., attending a physical inventory count or physically inspecting assets or documents).

The ISA for LCE includes additional details and specifics on when an auditor can use the standard. These details and specifics are included in the Authority (Part A) of the standard and include specific prohibitions, qualitative characteristics, and quantitative thresholds.

Why should my jurisdiction adopt ISA for LCE?

Adopting the ISA for LCE will help make audits of less complex entities more effective and efficient, while maintaining high-quality. It also will promote the consistent application of auditing standards to LCEs and reduce the risk of jurisdictional divergence by driving consistency and comparability globally.

The ISAs, and the audits conducted using them, provide the trust and confidence markets and investors need when making decisions. Similarly, the ISA for LCE will provide the same trust and confidence in the financial reporting by smaller and less complex businesses. With the new standard, auditors are getting appropriately proportionate, relevant, and focused requirements and guidance that can easily be applied to the audits of less complex entities.

While each jurisdiction sets its own boundaries or thresholds for which entities require an audit of their financial statements, the ISA for LCE provides flexibility to broaden the scope to include LCEs or, if already included, to require or permit such audits to be conducted in accordance with the ISA for LCE.

How will the standard be maintained?

After the ISA for LCE becomes effective on December 15, 2025, there will be an initial period of stability of at least three years. Meaning any possible future revisions to the ISA for LCE would not become effective before December 15, 2028.

This initial period of stability will provide stakeholders time to adopt and implement the standard before introducing any possible revisions. The IAASB will consider the best way to maintain the ISA for LCE after the initial period. However, a core consideration will be that the ISA for LCE must remain up to date and, to the greatest extent possible, consistent with the ISAs.

What implementation support will the IAASB provide?

In addition to the standard, Basis for Conclusions, fact sheet and this FAQ published in December 2023, in 2024, additional materials will be published to support the adoption and implementation of the ISA for LCE:

- Supplementary guidance on the authority of the standard and on reporting;
- An adoption fact sheet; and
- A first-time implementation guide.

We will also hold webinars on the scope and authority, general guidance, and implementation.

All new materials will be published on the IAASB website: iaasb.org/ISAforLCE

When does the ISA for LCE come into effect?

The ISA for LCE is effective for audits of financial statements of less complex entities for periods beginning on or after December 15, 2025. Early adoption is permitted and encouraged.

This document was prepared by the Staff of the International Auditing and Assurance Standards Board (IAASB).

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

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

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**International Auditing
and Assurance
Standards Board**

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