

APPROACH FOR MAINTAINING THE ISA FOR LCE

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

The approach for maintaining the ISA for LCE (the Approach) is intended to be read in conjunction with the [IAASB Framework for Activities](#) (the Framework). The Framework sets out how the IAASB undertakes its work, including describing the processes and procedures for selecting and prioritizing specific activities to deliver on its committed actions consistent with the applicable strategy and work plan. The Approach builds on the Framework and expands on how to apply the Framework to the maintenance of the ISA for LCE.

Introduction

This document sets out the IAASB's approach for maintaining the ISA for LCE for changes to the International Standards on Auditing (ISAs). It operationalizes the maintenance of the ISA for LCE in a manner that is both effective and efficient, while ensuring transparency for stakeholders and consistency in execution.

The IAASB anticipates that revisions to the ISA for LCE will arise from:

- Development of new or revised ISA(s); or
- Monitoring and information-gathering activities, for example, post-implementation review of the ISA for LCE, ongoing monitoring of the environment, related activities of stakeholders (e.g., that of jurisdictional standard setters, policy makers, audit and assurance oversight bodies, international organizations) and feedback received from general or project-specific outreach activities, which may reveal the need for possible standard-setting action.

Revisions to the ISA for LCE is a work plan decision of the IAASB. An approved project proposal governs and directs each standard-setting project for the ISA for LCE, which is undertaken in accordance with the IAASB's Integrated Due Process and Public Interest Framework Operating Procedures.¹

The Approach only addresses revisions to the ISA for LCE arising from new or revised ISAs and uses the term "maintenance of the ISA for LCE" when referring to such revisions. Any other revisions to the ISA for LCE will be decided on and undertaken as a regular standard-setting project as contemplated in the Framework and the Integrated Due Process and Public Interest Framework Operating Procedures.

Given the specific nature of the maintenance of the ISA for LCE, where the public interest issues and related solutions have already been discussed and agreed upon during the development of new or revised ISAs, the Approach focuses on the relevance to the ISA for LCE of the solutions already developed for the new or revised ISAs. When the solutions are determined to be of relevance, the Approach also explains how they may be applied in a proportionate manner, taking into account the design principles of the ISA for LCE.

¹ See 'Due Process' under Quick Links on the [IAASB website](#).

This document includes six sections:

- Section A: Context;
- Section B: Purpose;
- Section C: Maintenance process;
- Section D: Responsibilities;
- Section E: Outputs; and
- Section F: Timing.

A. Context

1. The IAASB monitors and gathers information on the implementation and application of the ISAs, which may reveal benefits and good practice, as well as possible issues or challenges. Depending on the nature of any issues or challenges identified, the IAASB may revise or develop new ISA(s) to support the consistent performance of quality audit engagements. Given that the ISA for LCE was designed based on the core requirements and concepts of the ISAs, any public interest issues identified in relation to new or revised ISA(s) would generally be relevant to the ISA for LCE.
2. In addition, given that both the ISAs and the ISA for LCE have been designed to achieve reasonable assurance, the work performed by an auditor under the ISA for LCE should continue to be based on the core requirements and concepts of the ISAs.
3. The IAASB is committed to maintaining the ISA for LCE for changes in the business and audit environment. In this regard, the IAASB recognizes that the ISA for LCE has been designed as a standalone standard that achieves reasonable assurance through requirements and essential explanatory material that are relevant and proportionate to the typical nature and circumstances of an audit of an LCE. Therefore, the ISA for LCE does not address complex matters or circumstances.

B. Purpose

4. The purpose of the maintenance of the ISA for LCE is, in light of new or revised ISAs, to develop revisions to the ISA for LCE that are:
 - Relevant in the context of the typical nature and circumstances of an audit of an LCE; and
 - Aligned with the core requirements and concepts of the ISAs in a proportionate way.

C. Maintenance Process

5. The IAASB will approve a project proposal for each maintenance project and follow its Integrated Due Process and Public Interest Framework Operating Procedures in developing revisions to the ISA for LCE which include:
 - Development of an exposure draft accompanied by an explanatory memorandum.
 - Public consultation based on the exposure draft and explanatory memorandum, as well as ongoing outreach activities with key stakeholders (during the development of the exposure draft or during the public consultation period).
 - Development of changes to address comments on the exposure draft and other feedback received.
 - Finalization of the standard.
6. A maintenance project of the ISA for LCE involves taking the solutions developed for the new or revised ISA(s) and considering their relevance for an audit of an LCE and, if relevant, incorporating those solutions in a proportionate way in the standard, taking into account the design principles of the ISA for LCE. This process includes carefully adapting the relevant requirements and application material to ensure that the ISA for LCE is appropriately revised and remains aligned with the core requirements and concepts of the ISAs, in a proportionate way.

Design Principles

In developing the ISA for LCE the following design principles were used:

- *Risk Based Approach and Principle Based.* As with the ISAs, the ISA for LCE establishes a risk-based approach to an audit, with requirements that are principles-based. This enables the standard to be used across a wide variety of LCEs with a wide range of circumstances and across sectors or industries, taking into account the applicability of the standard as addressed in Part A of the ISA for LCE.
- *Proportionality.* The requirements and Essential Explanatory Material (EEM) in the ISA for LCE are designed to be proportionate to the typical nature and circumstances of an audit of an LCE. Requirements and EEM that address complex matters or circumstances are excluded from the ISA for LCE.
- *Intuitive Structure.* The structure of the ISA for LCE follows the natural flow of the audit, from client acceptance or continuance to reporting.
- *Use of Core ISA Concepts.* The core concepts used in the ISA for LCE are the same as those used in an ISA audit. For example, an audit performed under the ISA for LCE applies a risk-based approach and is underpinned by the auditor exercising professional judgement and professional skepticism.
- *Focused on Expected Outcome.* The ISA for LCE focusses on what the outcome of the requirement is that the auditor needs to achieve. The requirements describe what the auditor needs to do without including unnecessary granularity. The requirements are expected to deliver a similar outcome as with the ISA requirements when applied to an audit of an LCE.
- *Clear, Understandable and Concise.* The requirements in the ISA for LCE are written to be clear, understandable and concise, avoiding any unnecessary words, repetition, or ambiguous language. In developing the ISA for LCE, the IAASB uses the [Complexity, Understandability, Scalability and Proportionality Drafting Principles and Guidelines](#).

7. The following are the three main steps in undertaking a maintenance project:
 - (a) Consider the relevance to the ISA for LCE of the public interest issues that were addressed during the development of the new or revised ISA(s);
 - (b) Develop, based on the approach taken in the new or revised ISA(s) and using the design principles in paragraph 6, a solution to address the issues in a manner that is proportionate in the context of the ISA for LCE; and
 - (c) Determine whether the proposed revisions to the ISA for LCE achieve the project objectives and thereby the purpose of maintaining the standard.

Stakeholder Engagement

8. The maintenance project team will engage with stakeholders to ensure that the revisions are informed by stakeholder perspectives and remain appropriate to the typical nature and circumstances of an audit of an LCE.

9. The maintenance project team may also leverage the public consultations on the new or revised ISAs as a means of obtaining information to inform the pending maintenance of the ISA for LCE.

Consider the Relevance of the Public Interest Issues

10. As a first step, the IAASB Staff (i.e., the maintenance project team) will review the public interest issues, as included in the project proposal of the new or revised ISA(s) and consider whether these issues are relevant in the context of an audit of an LCE. In doing so, the maintenance project team will:
 - (a) Reflect on the Authority of the ISA for LCE and determine whether the issues are related to matters that are in or out of scope of the ISA for LCE (e.g., issues related to publicly traded entities are out of scope and will be excluded from the maintenance project); and
 - (b) Review feedback received from stakeholders during the development of the new or revised ISA(s), including the responses to the exposure draft(s) of the new or revised ISA(s) and input from stakeholder outreach activities undertaken.
11. The maintenance project team will advise the Board as to the relevance of the public interest issues from the new or revised ISA(s) for the purpose of the maintenance project.

Develop a Proportionate Solution to Address the Issues

12. As the next step, the maintenance project team will undertake a structured approach to incorporate the relevant new or revised ISAs into the ISA for LCE. To do so, the maintenance project team will:
 - (a) Analyze how the relevant public interest issues were addressed in the development of the new or revised ISA(s). When an ISA requirement has been updated, the maintenance project team will determine whether the equivalent requirement in the ISA for LCE needs to be updated, taking into account the typical nature and circumstances of an audit of an LCE. Similarly, for new requirements, the maintenance project team will determine whether the new requirement is relevant and, if so, how best to include the requirement taking into account the typical nature and circumstances of an audit of an LCE; and
 - (b) Apply the design principles (see paragraph 6) to the solutions developed in the new or revised ISA(s).
13. In making the determination in paragraph 12(a) above, the maintenance project team will review the proposed solutions in the new or revised ISA(s). The ISAs are designed to be appropriately applied to a wide range of entities with varying circumstances, including different sizes and complexities. Therefore, scalability and proportionality are an integral part of a project to revise an ISA.
14. The maintenance process does not involve re-debating the issues or re-evaluating the proposed solutions developed as part of the new or revised ISA(s), as these matters have already been thoroughly considered and agreed upon by the IAASB. The focus of the maintenance project is instead on deliberating the relevance and the proportionate application of the solutions within the context of the ISA for LCE.

Determine Whether the Proposed Revisions Achieve the Project Objectives

15. Upon completing the drafting of the proposed revisions to the ISA for LCE, the maintenance project team will evaluate whether, overall, the revised requirements and essential explanatory material achieve the project objective and thereby the purpose of maintaining the standard.

D. Responsibilities

16. A maintenance project team consisting of Staff is set up for the purpose of developing the revisions to the ISA for LCE and is responsible for developing and presenting Board materials, and the views, recommendations and proposals that are presented for IAASB consideration. One or two Project Board Members, selected from Board Members with relevant expertise, will be assigned to the maintenance project to provide strategic and technical advice. Throughout the project, the maintenance project team may reach out to any IAASB members or others.

E. Outputs

17. A revised version of the ISA for LCE.

F. Timing

18. The maintenance of the ISA for LCE ordinarily begins when the new or revised ISA(s) is almost finalized. This approach allows the maintenance project team to leverage the solutions developed during the development of the new or revised ISA(s). Given the targeted scope of the project (i.e., aligning in a proportionate way, the ISA for LCE with the revisions to the relevant core requirements and concepts of the ISAs given the typical nature and circumstances of an audit of an LCE), the project timeline can be reduced, limiting the gap between the effective dates of the new or revised ISA(s) and the revised ISA for LCE.
19. A maintenance project of the ISA for LCE will commence when the drafting of the revised ISA is sufficiently advanced and after most public interest issues have been addressed and discussed with the Board. Often this will be a quarter before the expected approval of the new or revised ISA(s).
20. A maintenance project of the ISA for LCE is expected to take between 18 to 24 months, from the project proposal to the approval of the revisions by the IAASB.
21. The effective date of the revised ISA for LCE will generally be a year after the effective date of the new or revised ISAs. However, there may be circumstances arising in the environment or inherent in the nature of the revisions that may require adjustments to the timeline. Generally, early adoption will be permitted.

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

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

The IAASB develops auditing and assurance standards and guidance under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Stakeholder Advisory Council, which provides public interest input into the development of the standards and guidance.

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