

ISA for LCE >> ASIA PACIFIC FORUM

ADDENDUM: PERSPECTIVES FROM THE ASIA-PACIFIC REGION: ISA FOR LESS COMPLEX ENTITIES (LCE)

1. Is there a link to a response from the Institute of Chartered Accountants of India to the consultation?

The Auditing and Assurance Standards Board (AASB) of the Institute of Chartered Accountants of India (ICAI) responded to the ED. See this [link](#).

2. Is the IAASB going to publish when future revisions of the ISA for LCE will occur after the full ISAs?

Yes, maintenance (future revision) will be mentioned in the implementation guide.

3. Does a jurisdiction have to implement a quantitative threshold? Would there be an issue if there isn't a threshold?

It is not mandatory for the jurisdiction to set a quantitative threshold. However, the standard anticipates that legislative or regulatory authorities can and will do so.

4. Can a subsidiary with overseas parent company use ISA for LCE for its local statutory audit where the group structure and activities does not meet the qualitative characteristics (example on paragraph 30 on page 15 of the Authority Supplemental Guidance) (The Group audit will not use the ISA for LCE for its group audit)

A subsidiary with an overseas parent company can use the ISA for LCE for its local statutory audit. However, it is recommended to liaise with the group auditor to make sure they do not require you to perform (additional) procedures for the group audit

5. Where do you suggest we start to engage with others - how do we know which jurisdictions are looking at this standard?

Please have a look at the adoption guide which will help you with adopting the standard: <https://www.iaasb.org/publications/isa-lce-adoption-guide>.

IFAC is actively gathering data about potential adoption plans and evaluations at the jurisdiction level. Many jurisdictions across Europe, Asia, Africa, and Latin America are in consultation and/ or exposure draft phases, making it too early to confirm which specific or how many countries are moving forward with adoption - although early leaders include Norway, Sweden, and Mexico. In the future, IFAC will report and provide examples as it does with the tracking of other international standards and best practices that IFAC member organizations must adopt/support adoption, implement, and report on.

You can also liaise with your regional body (e.g., CAPA) should you need further information or assistance.

6. With reference to Part 6 of the LCE Standard am I right to infer that the LCE standard allows an auditor to combine both the inherent and control risk assessments to be done simultaneously, a slight departure from the current ISA 315 (revised)? This, I believe, would be a more efficient approach to an SME audit.

ISA for LCE requires a separate assessment of inherent risk and control risk. Please see para. 6.4.1 (b)(ii) and 6.4.7.

7. Is early adoption i.e. can we adopt the ISA for LCE in current time?

Yes. Early adoption is permitted.

8. The supplemental guidance explains that jurisdictions may modify a class of entities described in paragraph A.1.(c)(i) and (ii). That means, if the regulator and standard setter agrees to allow an entity (for example a small bank with asset < 5 billion), it is allowed to use ISA for LCE even though the bank has the characteristic of taking deposit from the public?

Please see the standard paragraph A2 and related EEM:

A2. The classes in paragraph A.1.(a) (b) and (d) are outright prohibitions and cannot be modified. Legislative or regulatory authorities or relevant local bodies with standard-setting authority can modify each class described in paragraph A.1.(c) but a class cannot be removed.

A.1.(c) sets out some classes of entities that may exhibit public interest characteristics. Entities that have public interest characteristics could embody a level of complexity in fact or appearance and are specifically prohibited from using the ISA for LCE. Modifications can be made by adding a class of entities to the list of prohibited entities, permitting specific subsets within a class to be able to use this standard or using quantitative thresholds to prohibit use of this standard. Legislative or regulatory authorities or relevant local bodies with standard-setting authority may subsequently remove or amend modifications that they have made.

9. Which Authority in Asia Pacific region has adopted ISA for LCE as of now?

IFAC is actively gathering data about potential adoption plans and evaluations at the jurisdiction level. Many jurisdictions across Europe, Asia, Africa, and Latin America are in consultation and exposure draft phases, making it too early to confirm which specific or how many countries are moving forward with adoption - although early leaders include Norway, Sweden, and Mexico. In the future IFAC will report and provide examples as it does with the tracking of other international standards and best practices that IFAC member organizations must adopt/support adoption, implement, and report on.

10. Even if the legislative body of a country has not yet adopted these standards, can an audit firm adopt ISA for LCE in their policies and start applicable audits based on these standards?

A.1.(a) prohibits the use of the ISA for LCE when law or regulation specifies the use of auditing standards other than the ISA for LCE for the audit of the financial statements in that jurisdiction.

11. Will the ISA for LCE be revised along with the ISAs or separately after?

Maintenance on the ISA for LCE will start after revised / new ISA is finalized

12. Considering the unique challenges faced by smaller entities, how can we ensure that the ISA for LCE evolves to not only maintain relevance but also proactively address the changing landscape of auditing, especially considering emerging technologies and shifting business models.

ISA is scalable and considered to be applied for audit on smaller entities too, so it will also reflect the unique challenges faced by smaller entities. By basing the maintenance of the ISA for LCE on the full ISAs, challenges in audit of these smaller entities, if any, can also be reflected eventually.

13. Is there a checklist to check the applicability of this ISA before proceeding in the audit?

There is no checklist, but the authority (Part A of the ISA for LCE) sets out when the standard can be used. In addition, IAASB has published a supplemental guide that will help auditors determine when the standard can be used.

When developing the ISA for LCE, all requirements in the ISAs were reviewed by the IAASB to determine for each requirement if it should be added, modified or excluded. Therefore, the standard is proportionate and tailored to the need of a LCE making it easier to navigate for practitioners supporting these engagements. In the view of the IAASB, all important aspects of the ISAs have been included in the ISA for LCE. Therefore, the IAASB is of the view that the ISA for LCE provides reasonable assurance (the same level of assurance as the ISAs provide).

Note – The followings answers (see above) are provided by IFAC as part of the interactive responses during and after the Forum. However, the final authority will be the official pronouncement as issued by the IAASB from time to time.