

Extract from [Draft] ISA for Audits of Financial Statements of Less Complex Entities**A. Authority of the [Draft] ISA for Audits of Financial Statements of Less Complex Entities**

- A.1. The [Draft] ISA for Audits of Financial Statements of Less Complex Entities (ISA for LCE) has been developed for use in an audit of the financial statements of a less complex entity (LCE) (whether in the private or public sector).
- A.2. Decisions about the required or permitted use of the IAASB's auditing standards rest with legislative authorities or relevant local bodies (such as regulators or oversight bodies, national standard setters, professional accountancy organizations or others) in individual jurisdictions. This applies to the International Standards on Auditing (ISAs) (from ISA 200 to ISA 810) and the [draft] ISA for LCE. The restrictions set out in this Part explain the intended scope of this [draft] ISA for LCE and therefore help inform legislative authorities or relevant local bodies when this [draft] ISA for LCE could be appropriate.
- A.3. This [draft] ISA for LCE is not permitted to be used for audits that are not audits of LCEs. If the [draft] ISA for LCE is used for audit engagements outside the intended scope of this standard it could result in the inability of the auditor to obtain sufficient appropriate audit evidence to support a reasonable assurance opinion.

Responsibilities of Legislative Authorities or Relevant Local Bodies

- A.4. Where permitted, legislative authorities or relevant local bodies may change this authority for use of this [draft] ISA for LCE in a specific jurisdiction. In doing so, legislative authorities or relevant local bodies have regard to the design of the [draft] ISA for LCE not addressing complex matters or circumstances, and the needs that may be relevant in the jurisdiction. For example, use of the [draft] ISA for LCE can be further limited by setting size criteria, or by expanding the list of restrictions below to other types of entities. Legislative authorities or relevant local bodies may also permit the use of the [draft] ISA for LCE for specific entities even though they may be on the restricted list (subject to the intended types of entities that this standard is appropriate for).
- A.5. In conjunction with the issuance of the [draft] ISA for LCE in each jurisdiction, it is expected that legislative authorities or relevant local bodies issue provisions and provide accompanying guidance (as needed) regarding the entities that are permitted, or not permitted to use this [draft] ISA for LCE.
- A.6. The Supplemental Guidance for the Authority of the Standard issued in conjunction with this [draft] ISA for LCE further explains the scope and other related matters in determining the appropriate use of the [draft] ISA for LCE. This guidance may also be helpful to firms in developing policies or procedures in relation to this [draft] ISA for LCE, and to audit engagement teams in understanding when the standard would be appropriate for a particular audit engagement (see Part 4, paragraph X in Acceptance and Continuance of Engagements).

Limitations on Use of the [Draft] ISA for LCE

Basis for the Limitations

- A.7. The basic premise of the design of the [draft] ISA for LCE is that the standard is designed for audits of LCEs and does not address complex matters or circumstances (i.e., the [draft] ISA for LCE is expected to be appropriately proportionate given the nature and circumstance of the entity for the purpose of an audit of an LCE). Whether the standard is appropriate for use or not in an audit engagement can be related to one or a combination of characteristics that are indicators of or proxies for matters or circumstances for which the standard has not been designed to address.
- A.8. The restrictions in this Part are based on the following overarching principles:
- Entities that have public interest characteristics have been excluded. Such entities could embody an intrinsic level of complexity in fact or appearance.
 - Ownership or corporate governance arrangements (or related structures), or entity-level policies or procedures that could be directly related to, or could indicate the presence of, or give rise to, matters or circumstances that increase complexity.
 - The nature and extent of the entity's business activities, operations and related transactions and events could give rise to complexity relevant to the preparation of the financial statements that is not commensurate with the intended scope of this [draft] ISA for LCE.

Restrictions

- A.9. The [draft] ISA for LCE shall not be used if:
- (a) Law or regulation:
 - (i) Restrict or prohibit the use of the [draft] ISA for LCE, or
 - (ii) Specify auditing standards other than the [draft] ISA for LCE for audits of financial statements in that jurisdiction.
 - (b) The entity is a listed entity.
 - (c) An entity meets one of the following criteria:¹
 - (i) An entity whose main function is to take deposits from the public;
 - (ii) An entity whose main function is to provide insurance to the public;
 - (iii) An entity whose function is to provide post-employment benefits;
 - (iv) An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public; or
 - (v) An entity is specified as a public interest entity by law or regulation.
 - (d) The audit is an audit of group financial statements.

¹ The criteria set out in (c) align with the proposals by the International Ethics Standards Board for Accountants (IESBA) to describe a public interest entity – if further changes are made by the IESBA further consideration will be given to the appropriateness of this list for the purpose of the authority of the [draft] ISA for LCE.

A.10. The restrictions in paragraph A.9. (a), (b) and (d) are outright restrictions and cannot be changed. The other restrictions (i.e., in paragraph A.9. (c)) can be refined by legislative authorities or relevant local bodies as needed.

Other Relevant Characteristics that Limit the Use of the Standard

A.11. Other relevant characteristics for determining whether the [draft] ISA for LCE is appropriate to use in the circumstances of an audit of an LCE as contemplated in the design of the standard are described below (with further explanatory material in the Supplemental Guidance for the Authority of the Standard). This list is not exhaustive and there may be other relevant matters that may also need to be considered. Each of the matters on its own may not be sufficient to determine whether the standard is appropriate or not in the circumstances, and the matters described in the list are therefore intended to be considered individually and in combination.

A.12. If the entity exhibits characteristics such as the following, the entity is not an LCE for purposes of this standard because there are complexities relating to these characteristics for which the standard does not include requirements or the requirements within the standard have not been designed to address such complexities:

- Where there are complex organizational, ownership or oversight structures.
- Where the entity is subject to a high degree of complex regulation or to significant regulatory oversight.
- Where transactions are complex or the information system and related processes relevant to the entity's financial statements are complex.
- Where the entity's IT environment or IT systems are complex.
- Where the entity's accounting estimates are complex.