

SAICA
Frequently Asked Questions (FAQs)
on the International Standard on Auditing for
Audits of Financial Statements of Less
Complex Entities
(the ISA for LCE)
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Frequently Asked Questions (FAQs) on the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the ISA for LCE)

The adoption / not of the ISA for LCE in South Africa is a dynamic topic. This document reflects information as of 3 May 2024. It will be updated to reflect significant local or international developments, as and when required.

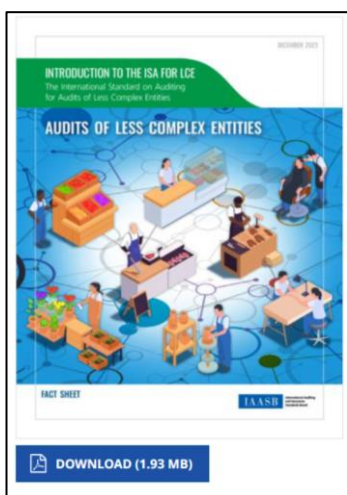
Introduction

The International Auditing and Assurance Standards Board (IAASB) published the ISA for LCE on 6 December 2023 [Click here for the standard](#). These FAQs are intended to assist in socialising the standard in the South African context. The FAQs however do not provide implementation guidance on the standard. This document is intended to be read in conjunction with material that the IAASB has published.

In addition to the standard, the IAASB has released:

- The Basis for Conclusions
- Fact sheet
- Frequently asked questions
- An overview presentation deck

Click on the images to access the documents on the IAASB website.



The IAASB has furthermore released an overview video, a video series covering the benefits of the standard, the applicability and use thereof and a step-by-step walkthrough, plus a webinar covering a comprehensive overview of the standard. The videos and webinar may be accessed here: <https://www.iaasb.org/focus-areas/isa-lce-standard-audits-less-complex-entities>

1. Has the Independent Regulatory Board for Auditors (IRBA) adopted the ISA for LCE for application in South Africa?

The IRBA has not yet made a decision as to whether or not to adopt the ISA for LCE for use in South Africa.

2. When may the ISA for LCE be applied in the conduct of an audit?

The ISA for LCE may be used in jurisdictions that have adopted the standard, for audits where the application of the standard is appropriate.

In South Africa, the IRBA is currently considering whether or not to adopt the standard for application by registered auditors in South Africa.

It is the *nature* of the business that is being audited that determines if this standard is appropriate to be used in the conduct of the audit.

Part A of the Standard sets out the Authority for determining the appropriate use of the ISA for LCE.

Limitations for using the ISA for LCE are designated into three categories:

1. Specific classes of entities for which the use of the ISA for LCE is prohibited (i.e., specific prohibitions);
2. Qualitative characteristics that describe an LCE, and if not exhibited by an entity would ordinarily preclude the use of the ISA for LCE for the audit of the financial statements of that entity; and
3. Quantitative thresholds to be determined by legislative or regulatory authorities or relevant local bodies with standard-setting authority in each jurisdiction.

In determining the appropriate use of the ISA for LCE, all three categories are to be considered.

Category	Detail
<p>1. Specific classes of entities for which the use of the ISA for LCE is prohibited (i.e., specific prohibitions)</p>	<p>A.1. The ISA for LCE shall not be used if:</p> <p>(a) Law or regulation prohibits the use of the ISA for LCE or specifies the use of auditing standards other than the ISA for LCE for the audit of the financial statements in that jurisdiction.</p> <p>(b) The entity is a listed entity.</p> <p>(c) The entity falls into one of the following classes:</p> <p>(i) An entity one of whose main functions is to take deposits from the public;</p> <p>(ii) An entity one of whose main functions is to provide insurance to the public; or</p> <p>(iii) A class of entities where use of the ISA for LCE is prohibited for that specific class of entity by a legislative or regulatory authority or relevant local body with standard-setting authority in the jurisdiction.</p> <p>(d) The audit is an audit of group financial statements (group audit) and:</p> <p>(i) Any of the group's individual entities or business units meet the criteria as described in paragraph A.1.(b) or A.1.(c); or</p> <p>(ii) 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).</p> <p>[Reference: ISA for LCE par. A.1.]</p>



Category	Detail
<p>2. Qualitative characteristics that describe an LCE, and if not exhibited by an entity would ordinarily preclude the use of the ISA for LCE for the audit of the financial statements of that entity</p>	<p>The following list describes characteristics of an LCE for the purpose of determining the appropriate use of the ISA for LCE. The list is not exhaustive nor intended to be absolute (including numerical indicators), and other relevant matters may also need to be considered.</p> <p>Each of the qualitative characteristics may not, on its own, be sufficient to determine whether the ISA for LCE is appropriate or not in the circumstances. Therefore, the matters described in the list are intended to be considered both individually and in combination.</p> <p>For the purpose of group audits, these considerations shall apply to both the group and each of its individual entities and business units.</p> <p>[Reference: ISA for LCE par. A.3.]</p>
	<p>Business Activities, Business Model & Industry</p> <p>The entity's business activities, business model, or the industry in which the entity operates, do not give rise to significant pervasive business risks.</p> <p>There are no specific laws or regulations that govern the business activities that add complexity (e.g., prudential requirements).</p> <p>The entity's transactions result from few lines of business or revenue streams.</p>
	<p>Organizational Structure and Size</p> <p>The organizational structure is relatively straightforward, with few reporting lines or levels and a small key management team (e.g., 5 individuals or less).</p>
	<p>Ownership Structure</p> <p>The entity's ownership structure is straightforward and there is clear transparency of ownership and control, such that all individual owners and beneficial owners are known.</p>
	<p>Nature of Finance Function</p> <p>The entity has a centralized finance function, including centralized activities related to financial reporting.</p> <p>There are few employees involved in financial reporting roles (e.g., 5 individuals or less).</p>
	<p>Information Technology (IT)</p> <p>The IT environment of the entity, including its IT applications and IT processes, is straightforward.</p> <p>The entity uses commercial software and does not have the ability to make any program changes other than to configure the software (e.g., the chart of accounts, reporting parameters or thresholds).</p> <p>Access to the software is generally limited to one or two designated individuals for the purpose of making the configurations.</p> <p>Few formalized general IT controls are needed in the entity's circumstances.</p>



Category	Detail	
	Application of the Financial Reporting Framework and Accounting Estimates	<p>Few accounts or disclosures in the financial statements of the entity necessitate the use of significant management judgment in applying the requirements of the financial reporting framework.</p> <p>The entity's financial statements ordinarily do not include accounting estimates that involve the use of methods, models, assumptions, or data, that are complex.</p>
	<p>Additional Characteristics Relevant for Group Audits</p> <p>For group audits, the following qualitative characteristics are to be considered in addition to those above:</p>	
	Group Structure and Activities	<p>The group has few entities or business units (e.g., 5 or less).</p> <p>Entities or business units within the group operate in jurisdictions with similar characteristics, for example laws or regulations and business practices.</p>
	Access to Information or People	<p>Group management will be able to provide the engagement team with access to information and unrestricted access to persons within the group as determined necessary by the group auditor.</p>
	Consolidation Process	<p>The group has a simple consolidation process. For example:</p> <ul style="list-style-type: none"> • Intercompany or other consolidation adjustments are not complex; • Financial information of all entities or business units has been prepared in accordance with similar accounting policies applied to the group financial statements; and • All entities or business units have the same financial reporting period-end as that used for group financial reporting.
<p>3. Quantitative thresholds to be determined by legislative or regulatory authorities or relevant local bodies with standard-setting authority in each jurisdiction.</p>	<p>Determining quantitative thresholds assists in the consistent and appropriate use of the ISA for LCE in a jurisdiction.</p> <p>This section anticipates that legislative or regulatory authorities or relevant local bodies with standard setting authority will determine quantitative threshold(s) for use of the ISA for LCE in their respective jurisdictions.</p> <p>[Reference: ISA for LCE par. A.4.]</p> <p>If the ISA for LCE is adopted for use in South Africa, the IRBA (for example) may thus determine quantitative thresholds for the use of the ISA for LCE in South Africa.</p>	

3. What is the effective date of the standard?

The ISA for LCE is effective for audits of financial statements of LCEs for periods beginning on or after 15 December 2025. Note, however, that the IRBA has not yet adopted the standard for use in South Africa.

4. Does the standard provide guidance in cases where there is uncertainty as to whether or not an audit meets the criteria for application of the ISA for LCE?

Yes, the Essential Explanatory Material to paragraph A.3 states:

“Notwithstanding that professional judgment is applied in determining whether this standard is appropriate to use, if there is uncertainty about whether an audit meets the criteria as set out in this Authority, the use of the ISA for LCE is not appropriate.”

5. May the ISA for LCE be applied to a group audit?

Yes, provided the group audit meets the standard’s eligibility criteria.

Paragraph P.16 of the Preface to the standard states: “For the purposes of this standard, the use of “LCE” or “entity” also refers to a group (i.e., where the audit is an audit of group financial statements).” See FAQ 2 in this document for a discussion on the application of the standard in a group audit.

6. Does the auditor *have to* apply the ISA for LCE when an auditee is within the scope of the standard?

No. Auditors may “opt-in” to apply the ISA for LCE when they are eligible to do so, but the ISA for LCE does not have to be applied to eligible auditees; the ISAs may be applied to an auditee that would be eligible for application of the ISA for LCE.

7. May the ISA for LCE only be applied when the auditee’s financial statements have been prepared on IFRS for SME?

No. The eligibility of applying the ISA for LCE in the conduct of the audit is not determined by the financial reporting framework that is applied in the preparation of the financial statements. See FAQ 2 in this document for a discussion on when the standard may be applied.

Paragraph P.2 of the Preface to the standard states: “This standard is written in the context of an audit of a complete set of general purpose financial statements of an LCE as contemplated in Part A. It may also be adapted as necessary in the circumstances of the engagement to an audit of a complete set of special purpose financial statements, or an audit of a single financial statement or of a specific element, account or item of a financial statement, only if the entity is an LCE as set out in Part A.”

General purpose financial statements are financial statements prepared in accordance with a general purpose framework. A general purpose framework is a financial reporting framework designed to meet the common financial information needs of a wide range of users and may be a fair presentation framework (for example IFRS® Accounting Standards or the *IFRS for SMEs*® Accounting Standard) or a compliance framework.

8. If the ISA for LCE is applied, is the auditor exempt from applying the Quality Management Standards?

No. Paragraph P.1 of the Preface to the standard states that the ISA for LCE is premised on the basis that the firm is subject to ISQM 1 or to national requirements that are at least as demanding.

9. If the ISA for LCE is applied, is the auditor exempt from applying relevant ethical requirements?

No. Paragraph 1.2.1 of the ISA for LCE requires the auditor to comply with relevant ethical requirements, including those pertaining to independence, for financial statement audit engagements. In South Africa, registered auditors would thus have to comply with the IRBA Code of Professional Conduct for Registered Auditors when applying the ISA for LCE.

10. Provided that the IRBA adopts the ISA for LCE for use in South Africa, would a registered auditor be exempt from being inspected by the IRBA Inspections team where an audit was performed in terms of the ISA for LCE?

No. Application of the ISA for LCE will not exempt a registered auditor from being selected for inspection by the IRBA Inspections team.

11. Does “Less Complex Entity” equate “SMP”?

No. The applicability of the ISA for LCE is determined by the *nature of the business of the auditee* and not by the nature of the auditor/audit firm. All clients of a small- and medium-sized practice (SMP) are thus not automatically eligible for being audited in terms of the ISA for LCE. See FAQ 2 in this document for a discussion on the application of the standard.

12. May a large audit firm apply the ISA for LCE?

Yes, provided that the nature of the auditee is such that application of the standard would be appropriate. The nature of the auditee determines whether the ISA for LCE may be applied rather than the nature of the auditor/audit firm. See FAQ 2 in this document for a discussion on the application of the standard.

13. Does the ISA for LCE require the auditor to refer back to the ISAs in certain circumstances?

No, the ISA for LCE is a stand-alone standard, completely separate from the ISAs. Cross references to the ISAs are not made in the ISA for LCE.

Paragraph P.3 of the Preface to the ISA for LCE states: “When an audit engagement is undertaken using this standard, the International Standards on Auditing do not apply to the engagement.”
See FAQ 19 in this document which deals with a situation where an auditor’s determination of the use of the ISA for LCE changes during the course of the audit.

14. If the auditor performs an audit in terms of the ISA for LCE, does the auditor express a different level of assurance if compared to performing the audit in terms of ISAs? Is this, for example, more closely related to a review of financial statements?

No. An audit performed in terms of the ISA for LCE results in the auditor expressing a reasonable assurance opinion. The same level of assurance is thus provided in an audit performed in terms of the ISA for LCE if compared to an audit performed in terms of the ISAs. The ISA for LCE is not equivalent to a review of financial statements where a limited assurance conclusion is expressed.

15. Does applying the ISA for LCE automatically mean that less audit work will be required of the auditor?

Not necessarily. The ISAs are drafted to be scalable. Many audit firms have already tailored their methodologies taking this scalability into account. Application of the ISA for LCE therefore does not automatically mean that less audit work will be performed, if compared to an audit prepared in terms of the ISAs. As discussed in FAQ 14 in this document, the same level of assurance is provided in an audit conducted in terms of the ISA for LCE if compared to the ISAs.



16. If an audit is performed on the ISA for LCE, should the audit client automatically expect a reduction in fees when the previous year's audit was performed in terms of the ISAs?

No. The audit fee is determined by many factors. On consideration that the same level of assurance is provided, that firms may have already tailored their methodologies taking the scalability of the ISAs into consideration, and that application of the ISA for LCE is not expected to result in a reduction of audit work, a reduction in fees should not be expected.

17. What is the primary benefit of the ISA for LCE?

The [IAASB's Fact Sheet on the ISA for LCE](#) indicates the following as reasons for using the ISA for LCE:

“Obtain **reasonable assurance** while using a standard that is:

- Easy to understand with plain, simple language and follows the flow of an audit
- Clear, succinct and concise requirements and guidance
- Focused on matters applicable to LCEs”

18. If I am knowledgeable on the ISAs, would it be right to assume that I am knowledgeable on the ISA for LCE, and vice versa?

No. There are differences between the two auditing frameworks. For example, the ISA for LCE requires the auditor to document the basis for the determination made for using the ISA for LCE [ISA for LCE par 4.7.2], and requires the auditor to document changes, if any, to the determination of the use of the ISA for LCE if further information comes to the auditor's attention during the audit that may change the professional judgment made in this regard [ISA for LCE par 4.7.3].

The maxim *the devil is in the detail* also applies here.

For example:

Paragraph 5.4.1 of the ISA for LCE states: “The auditor shall communicate with management, and where appropriate, those charged with governance an overview of the planned scope, timing and direction of the audit.”

ISA 260 (Revised) paragraph 15 states: “The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit, which includes communicating about the significant risks identified by the auditor.”

An education process would be necessary for someone who knows the ISAs to be knowledgeable on the ISA for LCE and vice versa.

See also FAQ 25 in this document which explains the maintenance of the ISA for LCE. There may be a time lag between a revised ISA being issued, and a consequential amendment being made in the ISA for LCE.

19. If the auditor commences an audit in terms of the ISA for LCE, but later identifies factors that indicate that applying the ISA for LCE is not appropriate in the circumstances of the audit engagement, would the audit need to be performed in terms of the ISAs?

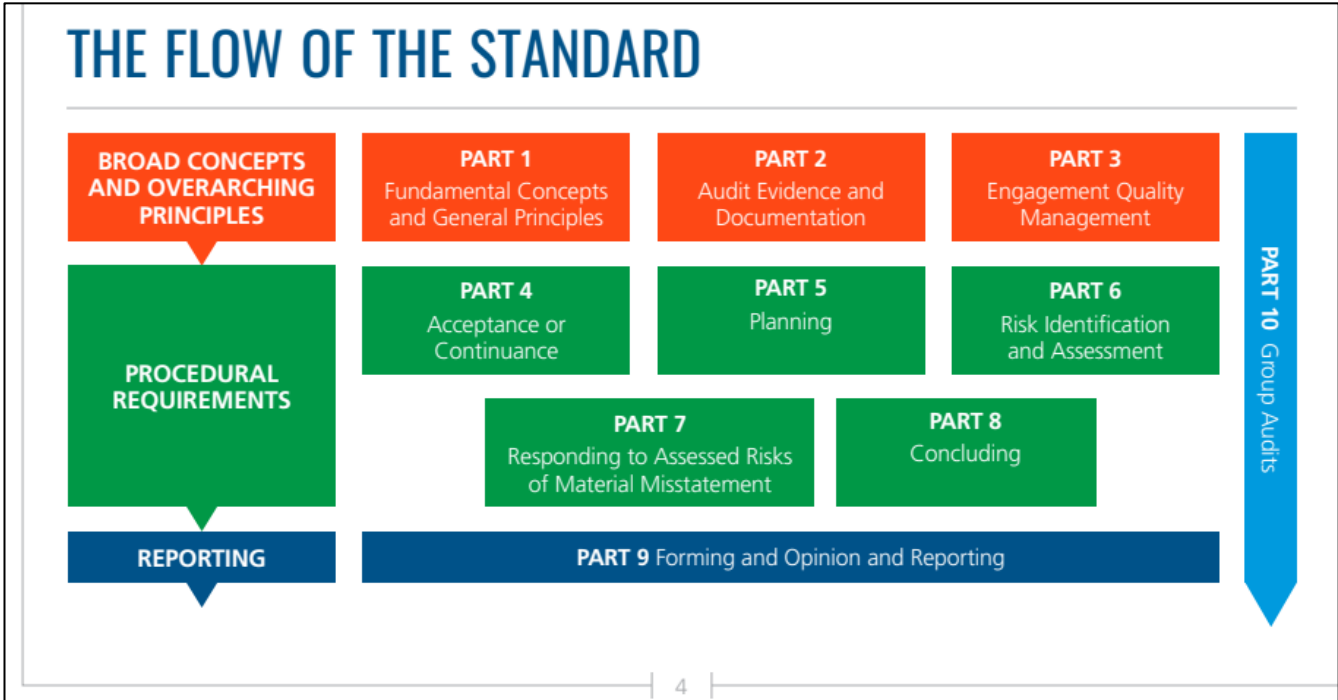
Yes. This is clear from par 6.5.1 of the ISA for LCE and its related Essential Explanatory Material:

“6.5.1. Based on the procedures performed to identify and assess the risks of material misstatement, the engagement partner shall evaluate whether the ISA for LCE continues to be appropriate for the nature and circumstances of the entity being audited.”

“The auditor's original determination to use the ISA for LCE may change as new information or additional audit evidence is obtained when performing procedures to identify and assess risks of material misstatement. In circumstances where audit evidence, or new information, is obtained, which is inconsistent with the auditor's original determination for using the ISA for LCE, the auditor may need to change the original determination to use the ISA for LCE, and transition to using the ISAs or other applicable standards as appropriate.”

20. I have not yet read the standard. Would you please provide an overview of the flow thereof? Is it organised in the same way as the ISAs?

The IAASB’s Fact Sheet contains a visual representation of the flow of the standard. It is not organised in the same way as the ISAs.



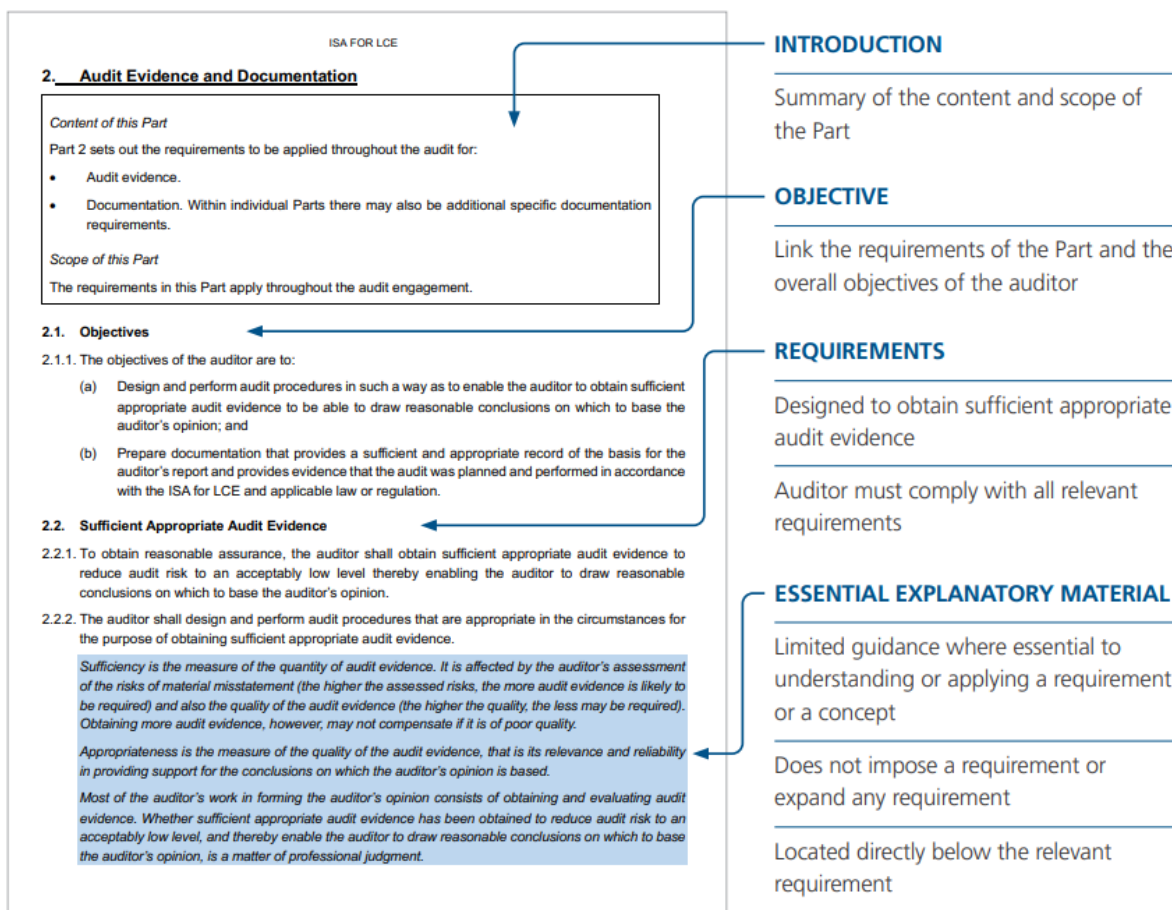
Source: ISA for LCE Fact Sheet <https://ifacweb.blob.core.windows.net/publicfiles/2023-12/IAASB-Audits-Less-Complex-Entities-LCE-Fact-Sheet.pdf>

21. Does the text of the ISA for LCE have a similar look and feel to the ISAs?

No. The ISAs set out the introduction, objectives and requirements, with application and other explanatory material that follow the requirements. The layout of the ISA for LCE is different. See below from the IAASB document *Introduction to the ISA for LCE: The International Standard on Auditing for Audits of Less Complex Entities*

INTRODUCTION TO THE ISA FOR LCE: THE INTERNATIONAL STANDARD ON AUDITING FOR AUDITS OF LESS COMPLEX ENTITIES

LAYOUT OF EACH PART OF THE STANDARD



Source: ISA for LCE Fact Sheet <https://ifacweb.blob.core.windows.net/publicfiles/2023-12/IAASB-Audits-Less-Complex-Entities-LCE-Fact-Sheet.pdf>

22. Are there ISA requirements that are excluded from the ISA for LCE?

Yes. The Essential Explanatory Material to paragraph A.2 states:

“ ...
 Also, the ISA for LCE does not include any requirements addressing:

- Procedures or matters typically relevant to listed entities, including reporting on segment information or key audit matters.

- *When the auditor intends to use the work of internal auditors, as this would ordinarily not be applicable to an audit of an LCE.*
- *When the auditor intends to use a report provided by a service auditor of a service organization either as audit evidence about the design and implementation of controls at the service organization (i.e. a type 1 or type 2 report), or as audit evidence that controls at the service organization are operating effectively (i.e., a type 2 report), as this would ordinarily not be applicable to an audit of an LCE.”*

23. Are there requirements in the ISA for LCE that will not be found in the ISAs?

Yes. Refer to FAQ 18 in this document for examples.

24. If the auditor determined that application of the ISA for LCE was appropriate in one year, may the auditor assume that application of the ISA for LCE is appropriate in subsequent years?

No. The consideration and documentation of applicability of the ISA for LCE in the conduct of the audit have to be performed for each year's audit.

25. Will the ISA for LCE be updated as and when new/revised ISAs are published by the IAASB?

Not necessarily.

The IAASB's Frequently Asked Questions document on the standard states:

“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 has indicated that they 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.”

26. Is the IAASB planning on releasing further guidance in 2024?

Yes. As indicated on the IAASB's ISA for LCE web page, to support adoption and implementation of this new standard, the IAASB will issue additional materials:

- Q2 2024: Adoption guide
- Q2 2024: Supplemental guidance on the Authority
- Q2 2024: Supplemental guidance on Reporting
- Q3 2024: First-time implementation guide

All new materials will be included on this web page: <https://www.iaasb.org/focus-areas/isa-lce-standard-audits-less-complex-entities>