



Australian Government

**Auditing and Assurance
Standards Board**

Feedback Statement

Decision Not to Adopt the ISA for
LCE Standard in Australia

December 2023

About the AUASB

The Auditing and Assurance Standards Board (AUASB) is an independent, non-corporate Commonwealth entity of the Australian Government, responsible for developing, issuing, and maintaining auditing and assurance standards.

Sound public interest-oriented auditing and assurance standards are necessary to reinforce the credibility of the auditing and assurance processes for those who use financial and other information. The AUASB standards are legally enforceable for audits or reviews of financial reports required under the *Corporations Act 2001*. For more information about the AUASB see the AUASB Website.

Disclaimer

This publication has been prepared by the Office of the AUASB.

The views expressed in this publication are those of the author(s) of submissions to the AUASB and those views do not necessarily coincide with the views of the AUASB. Any errors or omissions remain the responsibility of the principal authors.

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1. Introduction

1.1 *What is the purpose of this feedback statement?*

This feedback statement summarises the AUASB's position on the adoption of the *International Standard on Auditing of Financial Statements of Less Complex Entities* (ISA for LCE) in Australia.

1.2 *Background*

Discussion Paper

In April 2019, the International Auditing and Assurance Standards Board (IAASB) released for public comment a [Discussion Paper](#) on audits of less complex entities, *Exploring Possible Options to Address the Challenges in Applying the ISAs*. The Discussion Paper aimed to further understand the challenges of using ISAs in audits of Less Complex Entities and views about possible actions to address these challenges.

The [AUASB's submission to the IAASB](#) on the Discussion Paper stated the AUASB's preference for a revision of the ISAs to address the growing complexity of auditing standards which would benefit all auditors (not just those who audit LCEs).

Exposure Drafts

In July 2021, the IAASB released [Exposure Draft Proposed International Standard on Auditing of Financial Statements of Less Complex Entities](#) (ED ISA-LCE). In September 2021 the AUASB issued a [Consultation Paper on the IAASB exposure draft Auditing of Financial Statements of Less Complex Entities \(ISA for LCE\); and Consideration of Possible alternative options for Australian LCE audits](#) (Consultation Paper).

In January 2023, the IAASB exposed a new [Part 10](#) to the proposed standard to allow for Group Audits. In July 2023 the IAASB decided to proceed with the standard and allow for a component auditor to be used where their work is limited to cases where a physical presence is needed for a specific audit procedure (e.g. a stock count).

The [AUASB's response](#) to the first IAASB exposure draft followed extensive consultation with audit practices of all sizes. The AUASB commented that the proposed standard would add to the audit expectation gap, with users perceiving that the proposed standard results in a less robust audit, reduced audit effort and consequently an inappropriate expectation of reduced audit fees. The main concerns expressed by the AUASB were:

- a. The possible perception that the proposed standard involves a lesser quality or scaled down audit product, especially if the use of the proposed standard needs to be explicitly stated in the auditor's report;



- b. An expectation of reduced work effort being applied than would be expected under the full suite of ISAs, despite the proposed level of assurance being the same; and
- c. A perception that regulators may not accept the use of the proposed standard on audits which are required by local statutory or regulatory requirements.

The [AUASB's response](#) to the IAASB's second exposure draft did not support the IAASB scoping out group audits where component auditors are used.

2. Outreach and Feedback Received

The AUASB conducted extensive stakeholder outreach at the time of the Consultation Paper and further outreach into the lead up to the December 2023 AUASB meeting. Feedback received and the outreach conducted is summarised below.

2.1 Initial Outreach and Feedback

Outreach and written submissions on the first exposure draft:

- A targeted roundtable in October 2021 and two open roundtables in November 2021 attended by practitioners (small, medium and large), professional accounting bodies, academics, ASIC and other regulators;
- Discussions with the Large National Networks Discussion Group representing the mid-tier firms;
- Meetings with groups of small practitioners in Brisbane, Sydney and Melbourne; and
- Several written submissions were received including from Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia (CPAA).

Feedback from written submissions and outreach activities was as follows:

- Large, mid-tier and small firm practitioners, ASIC and users were overwhelmingly opposed to the ISA for LCEs in Australia for the reasons below:
 - Australian auditors were well skilled in the use of the full suite of standards and consider them scalable;
 - Practitioners would need to train partners and staff in two sets of standards potentially creating a two-tier profession;
 - The standard does not reduce audit effort, was not seen to simplify the audit process and would not necessarily correspond to an expected reduced audit fees; and



- Reporting the use of an LCE standard in the auditor's report would create a perception of a lower quality audit.
- A small number of small practitioners considered the standard to provide a holistic view of the audit, and as being simple and easy to digest.

2.2 Further Outreach

Before the AUASB December 2023 meeting, the Office of the AUASB conducted further consultation including:

- Additional meetings with representatives of small and medium firms, who reaffirmed the lack of support to use the ISA for LCE in Australia.
- Meetings with Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia (CPAA) who indicated a preference for additional consultation with small practitioners and supported the issuing of an LCE standard in Australia. The bodies suggested that an LCE standard could be useful for audits of Not-for-Profit Entities (NFPs) and Self-Managed Superannuation Funds (SMSFs).

3. AUASB Decision

The AUASB considered the extensive consultation and feedback received. Recognising that practitioners consulted did not support the adoption of the LCE standard in Australia, the AUASB deliberated general public interest considerations whether to adopt the LCE standard in Australia.

While the LCE standard may be a simpler resource for some smaller SMSF practitioners, the AUASB considers that AUASB Guidance Statement GS 009 *Auditing Self-Managed Superannuation Funds* specifically caters for the needs of SMSF auditors. Furthermore, many SMSFs use administrators and the LCE standard does not include any provisions on the use of service organisations.

Additionally, the AUASB considers that the AUASB standards portal makes the full standards more accessible and easier to navigate for all practitioners.

While the ISA for LCE may be a valuable educative and training tool and may allow some practitioners to focus on requirements relevant to the typical nature and circumstances of the audit of an LCE, these limited benefits are outweighed by the public interest considerations outlined below:

- Create user expectations gap due to:
 - The perception that an LCE standard is a lesser quality or scaled down audit product, especially given that use of the standard needs to be explicitly stated in the auditor's report;



- A possible expectation of reduced work effort being applied than under the full ISAs, despite the level of assurance being the same;
- The perception that audits conducted using an LCE standard would not be considered by some regulators to meet local statutory or regulatory requirements; and
- An initial time lag in updating the LCE standard for upcoming new fraud and going concern standards.
- Potentially create a two-tier profession if the profession splits into auditors who perform ISA audits and those who perform LCE audits. Auditors and staff who only perform LCE audits may find their capabilities to apply the full suite of standards is not developed or is diminished over time, impacting their business and career opportunities.
- Increases the need for:
 - Education, training and maintenance for auditors and firms that use both the full standards and the LCE standard; and
 - Education of users to mitigate the risk of an expectation gap and marketplace confusion.
- Limited essential explanatory materials in the LCE standard creates a risk that the standard may be incorrectly or inconsistently applied in practice, reducing audit quality.

If the LCE standard is not adopted, practitioners would continue to follow the Australian equivalent of the ISAs and Australian audits would still be fully ISA compliant.

On the basis of consultation feedback and consideration of all public interest considerations, the AUASB decided not to issue an Australian LCE standard at this time.

One AUASB member supported the development and release of an Australian LCE standard and consulting on the quantitative thresholds for applying the standard for different types of entities before deciding whether or not to issue a standard locally. All other Board members present were satisfied that the outreach on the proposed standard was sufficient, and did not support the release of an Australian standard at this time.