

Why LCE audits matter

Author: ICAEW Insights

Published: 31 Jan 2022

As the consultation on a proposed international auditing standard for the audit of 'less complex entities' (ISA for LCE) draws to a close, it's time to make the case for why it's needed.

The smaller audit market is facing a drawn-out crisis. With the number of firms available to perform small audits slowly shrinking, SMEs, smaller charities and other organisations are at risk of losing access in their local communities to high quality audit services, despite a real need for those services. Some high street firms are finding it increasingly difficult to justify remaining in the audit market. One of the reasons for this is the increasing complexity of an audit.

The International Auditing and Assurance Standards Board (IAASB) now has an opportunity to change all that. Its exposure draft of a standard for less complex entity (LCE) audits provides some much-needed clarity and international leadership regarding such audits, removing them from an increasingly complex web of auditing standards that are difficult to apply to LCEs, because they are primarily designed for larger entities.

The proposed standard has significant shortcomings, but it still provides a solid framework for how to undertake an LCE audit and a promising basis for further development. Its current flaws are fixable and are being addressed through responses from a wide range of stakeholders, including ICAEW.

ICAEW's Katharine Bagshaw, Senior Manager, Auditing Standards, said: "There's been unprecedented interest in this proposed standard, from many stakeholders who rarely express an interest in auditing standards. That alone demonstrates the need for a better standard for LCE audits - not just more guidance - and while there's a long way to go, the IAASB has made a start. That matters."

There are many reasons why LCEs need access to high quality audit services in jurisdictions such as the UK, with high audit exemption limits: many audits are performed on companies that would be exempt were it not for the fact that they are parts of larger groups; credit rating agencies and providers of finance look for assurance on the information provided by smaller businesses; in the third sector, audit exemption levels are lower and many organisations are required to have an audit under their articles of association or for other reasons. There is a clear need for auditing standards specifically designed for these LCEs.

“The availability of audit services to LCEs depends on the willingness of practitioners to provide such services,” says the ICAEW response. “This, in turn, depends on the availability of efficient and effective auditing standards.”

The response points to the recently revised ISAs 315 and 540 (on risk assessment and the audit of accounting estimates respectively) as being the latest in a long line of standards that are difficult to apply to LCE audits – standards many see as compelling reasons for a new, separate, auditing standard.

While many firms are enthusiastic about the idea of a separate standard for LCE audits, others are less sure, and are concerned about the potential need to develop and maintain two audit systems. The case for the new standard could and should be made more clearly and convincingly, and the IAASB has a role in doing that.

ICAEW’s Director of Policy, John Boulton, said: “On balance, ICAEW believes this standard is a real opportunity to make it easier to understand auditing standards in an SME environment – principally by removing redundancy designed for more complex environments.”

He added: “That should make it more efficient to audit LCEs. We face a looming crisis of LCE audit availability, and this is an achievable and potentially effective way of heading that off. It’s in the public interest that we do what we can to support the market for smaller audits. It’s time for the standard-setters to step up and exercise global leadership.”

ICAEW’s Managing Director of Reputation and Influence, Iain Wright, said: “The audit product provides assurance for third parties such as credit agencies and providers of finance. Without such assurance, less complex entities may find the opportunities to grow and innovate choked off.

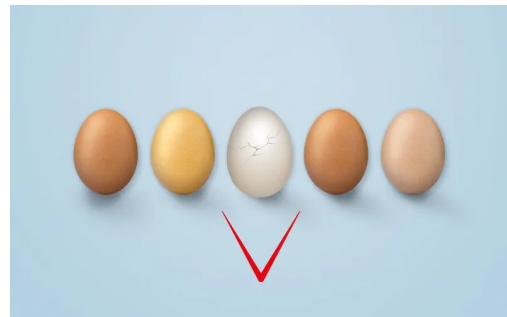
“It is therefore in the interests of the entire global economic ecosystem in the context of a post-pandemic push for recovery that a suitable and relevant standard be made available as soon as possible to facilitate both audits and opportunities for growth.”

The next steps

Work needs to be done on the standard to make it fit for purpose and to get regulators on board. But ICAEW's response to the proposals is clear: ICAEW is urging IAASB to move forward and finalise the standard as soon as possible, to permit jurisdictions most in need of it to adopt it immediately, and to prevent the fragmentation of IAASB's hard-won global consensus on auditing standards.

ICAEW's response looks forward to the finalisation of the standard, which will enable IAASB to refocus some of its efforts on the audit of entities listed on world's capital markets, and for the LCE auditors and others to work with the new standard to refine and improve it.

ICAEW Know-How from the Audit and Assurance Faculty



This guidance is created by the Audit and Assurance Faculty - recognised internationally as a leading authority and source of expertise and know-how on audit and assurance matters. Join the Faculty to connect with like-minded professionals and gain access to essential guidance and technical advice.

- [Find out more about the Faculty](#)

LATEST NEWS

LATEST TAX NEWS

-
- 1 [Chart of the week: UK International Reserves](#)
 - 2 [Funding concerns over new Public Sector Fraud Authority](#)
 - 3 [ICAEW's ACA qualification recognised in Cyprus](#)
 - 4 [Levelling Up: how to measure quality of life](#)

5 Growth to lose momentum in UK and Europe

Recommended content

PODCAST



Insights Podcast

Hear a panel of guests dissect the latest headlines and provide expert analysis on the top stories from across the world of business, finance and accountancy.

[Find out more](#)

NEWSLETTER

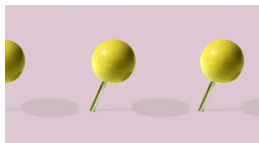


Stay up to date

You can receive email update from ICAEW insights either daily, weekly or monthly, subscribe to whichever works for you.

[Sign up](#)

DAILY SUMMARIES



News in brief

Read ICAEW's daily summary of accountancy news from across the mainstream media and broader financing sector.

[See more](#)

© ICAEW 2022

The Institute of Chartered Accountants in England and Wales, incorporated by Royal Charter RC000246 with registered office at Chartered Accountants' Hall, Moorgate Place, London EC2R 6EA