Financial Reporting Council

Feedback Statement

International Standard on Auditing for Less Complex Entities – How to Enhance Usability: Call for Views

August 2026

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1. Introduction

The Financial Reporting Council (FRC) is committed to acting as a proportionate and principles-based regulator that balances the need to minimise the impact of regulatory requirements on business, while working to support the delivery of high-quality audit and assurance work to maintain investor and wider stakeholder confidence in audit and assurance.

In March 2026, the FRC issued a Call for Views inviting stakeholders to share their views on the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE) to inform its ongoing engagement with the International Auditing and Assurance Standards Board (IAASB).

This was in response to views expressed by some stakeholders during our SME Market Study and consultation on a Practice Note (PN) for Small and Medium Sized Entities (PN 28: *Guidance for Audits of Small and Medium Sized Entities*). Many expressed the view that the FRC should adopt the ISA for LCE standard issued by the International Auditing and Assurance Standards Board (IAASB). Others suggested that it should be used as the basis for a modified UK-specific standard for the audit of these entities. Stakeholders also requested that the FRC undertake a more extensive engagement exercise on the standard.

This Call for Views was issued in response to this feedback. It is intended to inform our engagement with the IAASB's project on maintaining the LCE standard by better understanding stakeholders' views. This includes identifying changes which they would wish to see made at an international level, to address a number of concerns about the standard which were set out in the Call for Views. The Call for Views was not intended to explore UK adoption of the ISA for LCE as it currently stands, or whether a revised version would be adopted. The FRC has repeatedly expressed its concerns regarding the appropriateness of adopting the ISA for LCE standard within the context of the UK audit market, given the existence of the audit exemption threshold in the UK, and to date only a very small number of national jurisdictions have adopted the standard.

2. Summary of views received and FRC response

Summary of responses

A total of 16 responses were received in response to the Call for Views. An analysis of respondents is set out below.

Type of respondent	Number
Audit firm	5
Recognised supervisory body	4
Professional body	2
Individuals	2
Other	3
Total	**16**

The FRC also held two round tables during the Call for Views, and the opinions expressed there were aligned with those expressed in the responses. Very few responses were received from audit firms who are active in the SME audit market.

The feedback to each of the three questions posed in the Call for Views document, alongside the FRC's response, is set out below. The FRC is grateful for the thoughtful insights provided by respondents.

Question a) What is your view on the LCE standard which has been issued by the IAASB?

Summary of feedback

Most respondents were favourably disposed towards the ISA for LCE, with around half arguing that the UK should adopt the standard following a formal consultation process. A further three respondents expressed support for the underlying principle behind the standard but not the standard itself. The remaining responses were not supportive or were indifferent towards the ISA for LCE. This was either because they believed that engagements conducted under the standard would not deliver meaningful reductions in auditor work-effort, or because they considered that

alternative approaches could deliver equivalent results without incurring the potential disbenefits of maintaining two distinct audit approaches and methodologies.

The main argument advanced for adoption in the UK was based around concerns on the ability to apply the main suite of ISAs (UK) to less complex entities in a scalable and proportionate manner. Many expressed concerns about the overall length of the auditing standards. Some respondents expressed the view that the growth in complexity of the standards has been driven by public interest considerations arising from corporate and audit failings for larger entities, which resulted in disproportionate compliance burdens for auditors of less complex entities. In their view, the ISA for LCE is a readily available remedy to these concerns and could support this sector of the audit market.

Respondents also questioned the emphasis placed upon the application of professional judgement in the auditing standards. In their view, this results in excessive documentation for the audit of a less complex entity because of the need to articulate their judgements, as required in both law and regulation, in the audit file.

Additionally, a small number of respondents also noted that there were small entities outside the scope of the Companies Act for which there is a statutory requirement for an audit regardless of the size of the entity. These were most frequently encountered in the charitable and public sectors. These respondents viewed the ISA for LCE as an appropriate approach to ensure the proportionate performance of audits within this sector.

Respondents with a positive view of the ISA for LCE did identify several issues with the standard, though they were careful to emphasise that these did not constitute a barrier towards ultimately adopting the standard in the UK. Some respondents argued that the scoping of the standard is too restrictive, and the qualitative criteria for determining whether an entity is in scope leave room for judgement. This would necessitate additional documentation which may offset any efficiencies realised by the standard.

However, many respondents expressed scepticism that the ISA for LCE would result in benefits for auditors of less complex entities. This was a common thread in responses that expressed negative views on the standard, even though some were supportive of the need for an auditing standard for less complex entities.

Several respondents who were supportive of an auditing standard for less complex entities expressed the view that the method by which the ISA for LCE was drafted meant that it would not realise meaningful benefits for auditors of less complex entities. In their view, the derivation of this standard from the main suite of ISAs meant that it retained most of the underlying requirements in those standards. In their view, a more appropriate route to achieving more proportionate audit outcomes would have been to draft an entirely new set of requirements that were anchored in the context of a less complex entity, while retaining the underlying objectives set out in the ISAs.

Other respondents expressed the view that adoption would not support a meaningful reduction in work-effort, because the standard aimed to achieve the same reasonable assurance objective. As one respondent stated:

The LCE standard provides reasonable assurance and results in the same auditor's report. As such, the level of audit evidence required is fundamentally driven by the assurance objective rather than the format of the standard… Reduced length [of the standard] does not equate to reduced work effort…

Some respondents noted that there are no approaches to auditing a less complex entity via the ISA for LCE which could not be achieved through application of the main suite of ISAs, while one RSB also stated that utilising Practice Note 28 to apply the ISAs (UK) could achieve the same outcome as the LCE standard if it was adopted in the spirit with which it was intended.

Other arguments advanced against adoption of the ISA for LCE included:

- The absence of application material creates risks of uncertainty, inefficiency, and inspection uncertainty for practitioners.
- There are challenges on what the auditor should do where an entity moves out of the scope of the standard during an audit, which could incentivise practitioners to explain away complexity within an entity to remain within the scope of the ISA for LCE.
- Adoption of the ISA for LCE could result in a two-tier audit market, with some audit firms focussing exclusively on less complex entities while others concentrate on the performance of larger and more complex audits. This in turn could have impacts on the resilience and capacity of the UK audit market.
- Additionally, users may begin to regard an audit performed under the LCE standard as a lower level of assurance, even if that is not the intention of the standard.

A small number of responses from audit firms expressed a preference for a UK-specific LCE auditing standard. Others believed that the UK should take the ISA for LCE and make amendments to provide a more suitable basis for LCE audits, though one RSB argued strongly against the development of jurisdictionally specific LCE standards.

FRC response

Respondents articulated a wide range of views about the ISA for LCE, with no indication that stakeholders share a consensus view. While a majority expressed a favourable view of the standard, a significant number expressed their reservations. Of particular interest are the comments on the lack of differentiation in the requirements included in the main suite of ISAs (UK) and the ISA for LCE, which suggests that limited advantages, and no cost reductions, would flow from UK adoption of the standard.

The FRC recognises the challenge that can arise in applying the ISAs (UK) in a proportionate and scalable manner. This challenge arises in part because the standards have been drafted on the basis that they can be applied to the audit of any entity, regardless of its size. The drafting process at the IAASB requires that each revised standard needs to have regard to a central set of drafting principles that include scalability and proportionality considerations. Revisions to the standards are also subject to due process, including extensive opportunities for stakeholder engagement and a public consultation exercise.

There is ample opportunity for stakeholders to raise concerns if they consider that the underlying drafting lacks sufficient provision for scalability. Additionally, the format and length of the auditing standards is not a significant driver of work effort in performing an audit. Instead, it is the underlying reasonable assurance objective that the standards seek to achieve. The primary driver in the length of the standards has been growth in the supporting application material in each standard, rather than a significant increase in requirements. This has been in response to feedback from practitioners, who have sought additional guidance on how to apply these requirements in a variety of circumstances.

The FRC also notes the findings from its Market Study on the SME audit market, which suggested that there was little evidence of systemic market problems from the point of view of SME companies themselves. We do not accept that auditing standards are solely responsible for recent increases in the cost of audit. New accounting standards, the adoption of new technology by audited entities, legal and regulatory changes, and economic uncertainty contribute significantly to the work required, and therefore cost of an audit. We responded to the market study by developing Practice Note 28 - *Guidance for Audits of Small and Medium Sized Entities*, and have already received positive feedback on the impact that it is having in the SME audit sector.

Question b) Are there any parts of the LCE standard which you believe the IAASB should focus on as part of its project to maintain or improve the standard? Please be as specific as possible.

Summary of feedback

Respondents identified several specific areas where they believed the ISA for LCE could be improved. These are discussed below.

Scoping

In the view of two respondents, the ISA for LCE needed more focus on how to meet the objectives of the equivalent ISAs in a proportionate fashion in the context of an LCE to ensure meaningful differences between the ISA for LCE and the full ISA suite. Other respondents identified a need for greater clarity around which entities are in scope.

Respondents also stated that further guidance on the following areas would be helpful:

- Discussing the circumstances where it is appropriate to 'look through' the ISA for LCE to the corresponding ISA standard for additional requirements and guidance in instances where the auditor encounters unanticipated complexity during an engagement.
- The actions to be taken by an auditor during the performance of an audit when applying the ISA for LCE where it becomes clear that an entity no longer falls within the scope of the standard.

Fraud

One respondent noted that further examples on rebutting the presumption of fraudulent revenue recognition in context of LCE audits would be helpful.

Risk assessment procedures

Several respondents argued that the requirements set out in Section 6.3 'Understanding Relevant Aspects of the Entity' of the ISA for LCE were either unnecessary for the audit of an LCE or could be streamlined. A smaller number argued that the documentation requirements in Section 6.7 'Specific Documentation Requirements' were not proportionate in the context of an audit engagement for a less complex entity. A frequently expressed view was that work on internal controls was of limited utility to auditors since the audit approach tends to default to a wholly substantive approach for such entities. Several respondents also expressed their concerns that the ISA for LCE, in a similar way to ISA 315, frames its approach to understanding an entity's system of internal control with reference to the COSO *Internal Control – Integrated Framework* which is not the case. A number of respondents identified this as a driver of unnecessary complexity in the work of the auditor. In their view, this framework, which was intended to ensure compliance with US legal requirements, is too complex for application to less complex entities.

One respondent suggested that greater use of inquiry when performing risk assessment could be utilised due to less formal controls and processes in place at LCEs rather than reliance on other procedures such as review of an entity's formal documentation of its control processes. One firm noted that further practical examples of sufficient procedures in less formal control and IT environments, and how to document scalable compliance with requirements, would be beneficial, though they believed that these should be embedded in the main suite of ISAs rather than the ISA for LCE.

Entities using service organisations

One respondent argued that there was merit for including entities that use shared service centres into the scope of the ISA for LCE to widen its applicability in a public sector context.

Accounting estimates

Several respondents identified opportunities for enhancing the usability of the ISA for LCE with respect to accounting estimates with the objective of achieving meaningful reductions in work effort. These included considering how to remove the application of auditor judgement on identifying accounting estimates that are within scope of the standard, including using examples. One respondent also suggested the use of specific guidance on how to apply ISA 540 where there is one or more complex accounting estimate included within the financial statements.

Going concern

One respondent advocated for the inclusion of additional examples of the types of accessible evidence that could be used to assess the going concern basis of accounting in the absence of formal assessments by management.

Group audit

A few respondents argued for enhancements. One suggestion was to simplify the approach of dealing with component auditors with a view to reducing documentation requirements. A further suggestion involved extending the scope of the standard to non-complex subsidiaries.

Comparative figures

One respondent suggested guidance on how to address the transition from an ISA for LCE engagement to an engagement using the full ISA suite.

UK-specific matters

One respondent argued for 'UK pluses' on adoption of the ISA for LCE that place more emphasis on complexity rather than size on determining entities in scope of the standard, and to scope out subsidiaries subject to statutory audit from the application of the main ISA (UK) suite.

Alternative approaches

One firm argued that its preference was for effort to be expended on enhancing material relating to scalability within the main suite of ISAs (UK).

FRC response

General comments on amending the ISA for LCE for the UK audit market

The FRC welcomes the detailed feedback provided by respondents and will use this as a basis for engaging with both the IAASB and other international stakeholders. Ultimately, it is for the IAASB, as the independent standard setting board, to propose changes to the ISA for LCE which could enhance its usability. The FRC's powers to incorporate the potential changes identified by respondents into a UK version of the ISA for LCE are extremely constrained, and most – if not all – would need to be made to the underlying standard, as they would reduce applicable requirements below those applicable in full ISAs. It is also the responsibility of the IAASB to consider the need for further guidance on the transition issues raised by stakeholders.

Some respondents suggested that these changes could be made through 'UK pluses' – UK specific material – in the same way that the FRC has revised other auditing standards in advance of international changes. However, UK pluses can only be additive, rather than removing requirements that are embedded within a standard. Many of the enhancements identified by respondents – for example, removing requirements on assessing and documenting controls, allowing auditors to 'see through' the ISA for LCE to the underlying ISAs (UK), allowing entities to be scoped in which are excluded from the scope of the standard such as those that use shared service centres – would amount to a removal or weakening of existing requirements in the ISA for LCE.

Moreover, these 'UK minuses' would also ensure that the UK version of the ISA for LCE would not be strictly equivalent with the international version, meaning that an auditor using the standard would not be able to assert compliance with ISAs, undermining another reason advanced for UK adoption of the ISA for LCE. Audit practitioners also express a strong preference for the UK to only adopt UK-specific material to address specific legal and regulatory matters.

Risk assessment procedures

The reasonable assurance model underlying both the ISAs (UK) and the ISA for LCE uses a risk-based approach to the identification and response to risks of material misstatement in the financial statements. This should include an adequate assessment of an entity's internal controls, as a failure

to do so risks the auditor failing to identify or appropriately respond to risks of material misstatement arising from the entity's circumstances.

Ensuring that these requirements can be applied both in a proportionate and scalable fashion to small and medium sized entities is clearly key, and a central aim of PN 28 is to assist auditors to perform these risk assessments in a manner that reflects the comparative lack of complexity in small and medium sized enterprises.

Matters addressed in the current IAASB maintenance project

The IAASB are currently considering enhancements to the ISA for LCE which are aligned with some of the matters identified by respondents. These include changes to the material included in the standard in relation to the auditor's responsibilities on going concern, and in particular the challenges posed where management does not prepare a formal assessment. The FRC recognises the challenges for auditors in these circumstances. The guidance on this matter in PN 28 is intended to provide an innovative approach which suggests ways in which an auditor can have structured discussions with management to obtain sufficient appropriate audit evidence.

The FRC also notes that the IAASB is also considering revisions to the relevant sections of the ISA for LCE which provides further guidance for auditors on the rebuttable presumption of fraudulent revenue recognition. These revisions are expected to be completed by summer 2027.

Question c) Would the LCE standard as currently issued, if used, provide any tangible benefits in the delivery of audits for less complex entities? If yes, please provide examples. If not, why is this the case?

Summary of feedback

Respondents did not identify significant tangible benefits that were either measurable or specific. Several noted that quantifying benefits before adoption was difficult. Only one respondent noted the potential for reduced costs for SMEs from the audit process following adoption of the ISA for LCE, something that the IAASB has suggested is not the case.

Supporters of UK adoption of the ISA for LCE emphasised that this would result in greater efficiency in the performance of LCE audits. They stated that it would result in more proportionate audits, with more streamlined documentation for the planning phase of the audit. This was related to the removal of requirements designed to address complexity and risk which are not present in LCE audits. Some respondents expressed their view that this would alleviate the focus on compliance risk which, in their view, hampered the performance of audits of LCEs.

Other respondents stressed the need for the standard to address issues in specific sectors of the audit market, namely charities, small companies, and the public sector. Greater efficiency would also, in their view, allow for greater market capacity within the audit market.

Supporters of the ISA for LCE also identified that the standard was easier for practitioners to read and apply, and easier for educators to develop training materials. However, another respondent noted that the operational complexity of staying within scope, managing transition when

complexity emerges, and managing stakeholder perception of what an 'LCE audit' means, would outweigh any potential benefit that may arise from a single consolidated standard.

Respondents that did not support UK adoption expressed scepticism that the ISA for LCE would deliver tangible benefits, due to the limited reduction in requirements compared to a full ISA audit. One respondent pointed out that a shorter standard did not equate to reduced work effort, as it did not remove the requirement for auditors to exercise judgement on how to apply requirements. Indeed, it could increase work effort if firms had to develop and maintain their own interpretation and documentation approaches in the absence of supporting application material. In addition, limited international adoption of the standard was identified as a limitation.

FRC response

Ultimately, any decision on adopting the ISA for LCE in the UK rests on a trade-off between costs of adoption and benefits flowing from adoption. The absence of readily identifiable tangible benefits creates a risk that they cannot offset costs. Moreover, as the IAASB have themselves made clear, the ISA for LCE is not intended as a deregulatory or cost-saving measure, as the standard is intended to result in a similar reasonable assurance opinion as the main suite of ISAs. It is therefore unlikely to bring about significant reductions in the cost of audit. As several respondents note, the ISA for LCE is unlikely to result in less resource-intensive audits that would in turn reduce audit costs.

The FRC is also unconvinced by arguments that adoption of the ISA for LCE would support improvements in audit quality. We have expressed concerns that the absence of application material in the standard could result in different interpretations of requirements among practitioners, and it is interesting to note that some respondents have expressed similar views.

We are also not persuaded by assertions that the format of the ISA for LCE would support practitioners in performing the audit, and training providers in producing educational materials. The ISA for LCE, in common with the main suite of ISAs, is not a complete manual for performing an audit. There are many aspects of audit work which rely on sector-specific expertise or on general accounting skills which are not set out in auditing standards. Practitioners generally rely on a methodology package which reflects the requirements of the auditing standards and includes further material on sampling approaches, documentation formats and other supporting materials to support the auditor in performing the audit.

The FRC also considers that adoption of the ISA for LCE would not remove the potential for auditors to focus excessively upon regulatory risk when performing an audit. Audits performed under this standard would remain subject to an appropriate oversight regime if it was permitted for statutory audits, and so the underlying incentives would remain.

3. Next steps

The themes emerging from the responses to the Call for Views do not provide a basis for the FRC to reconsider its position on the ISA for LCE. In particular, the absence of a consensus view from respondents and the lack of specific benefits from adoption that are both tangible and credible does not support a reconsideration of that position.

While we recognise the support that many stakeholders express for the ISA for LCE, the absence of such benefits mean that the costs and potential risks from adoption do not appear to be sufficiently offset. We continue to keep this position under review, especially after future revisions of the standard, and we will continue to engage withy the IAASB to address these issues. However, the FRC still considers that the main suite of ISAs, supported by Practice Note 28 provides a pathway towards more proportionate and scalable audit approaches for SME entities which avoid the costs of adopting a new bespoke standard and avoid any of the potential risks. It is important to recognise that the UK is not alone among major international capital markets in taking this position.

The feedback provided by respondents provides the FRC with a better understanding of the range of views held on the ISA for LCE. It will provide a strong basis for engagement with both the IAASB and other international stakeholders. The FRC will write to the IAASB to share the insights provided by this exercise.

4. Appendix

List of respondents

1. Association of Chartered Certified Accountants (ACCA)
2. Association of Practising Accountants
3. Azets Audit Services Limited
4. Chartered Accountants Ireland
5. Centre for Public Interest Audit
6. Forvis Mazars LLP
7. Institute of Chartered Accountants in England and Wales (ICAEW)
8. Institute of Chartered Accountants of Scotland (ICAS)
9. KPMG LLP
10. Mercia Group Limited
11. Mr Martyn Jones
12. Ms Mira Makar
13. National Audit Office
14. Price Bailey LLP
15. The Change Hive
16. Society of Professional Accountants



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