



Cayman Islands
Institute of
Professional
Accountants

Guidance Note on the Application of the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE) in the Cayman Islands



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Development of this Guidance Note¹

This Guidance Note was developed by CIIPA following enquiries from member firms regarding the application of the ISA for LCE in the Cayman Islands and after consideration of implementation materials issued by the IAASB, including the ISA for LCE Adoption Guide and Authority Supplemental Guidance. It is intended to support consistent application of the standard and does not constitute a modification of the ISA for LCE.

Approval

This Guidance Note was developed by the Public Practice Committee and approved by Council on 17 September 2026.

¹ IAASB, *ISA for LCE Adoption Guide (2025) and Authority Supplemental Guidance for the ISA for LCE*

1. Purpose

This Guidance Note has been developed by the Cayman Islands Institute of Professional Accountants (**CIIPA**) to assist registered firms and members in determining the appropriateness of applying the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (**ISA for LCE**) within the Cayman Islands.

The International Auditing and Assurance Standards Board (**IAASB**) has recognised that each jurisdiction is unique and may face different considerations when implementing the ISA for LCE. The IAASB Adoption Guide notes that there is no standard approach to implementation and that jurisdictions may need to address local legal, regulatory and professional considerations when supporting the use of the standard.

This Guidance Note has therefore been developed to assist Cayman Islands practitioners in applying the ISA for LCE within the local regulatory and business environment.

This Guidance Note does not constitute an auditing standard and does not amend, replace or override the requirements of the ISA for LCE, International Standards on Auditing (**ISAs**), the Accountants Act, the Accountants (Quality Assurance) Regulations, or any applicable laws or regulations of the Cayman Islands.

2. Background

The IAASB issued the ISA for LCE in December 2023 as a standalone auditing standard designed for audits of financial statements of less complex entities².

The ISA for LCE is effective for audits of financial statements for periods beginning on or after 15 December 2025, subject to adoption or permission for use within individual jurisdictions.

The ISA for LCE is designed to provide reasonable assurance equivalent to that obtained under the ISAs while using requirements tailored to the nature and circumstances of less complex entities.

The IAASB has emphasized that the ISA for LCE is intended to be applied based primarily on qualitative characteristics of complexity rather than solely on quantitative size measures.

² International Auditing and Assurance Standards Board, *International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)*, December 2023.

3. Status of Auditing Standards in the Cayman Islands

Under the Accountants (Quality Assurance) Regulations (2024 Revision), registered firms are required to perform assurance engagements in accordance with:

- standards issued by the IAASB;
- standards issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (**AICPA**); or
- standards assessed as equivalent by CIIPA or the IAASB.

The ISA for LCE is an IAASB-issued auditing standard and may therefore be used where appropriate subject to applicable legal, regulatory and professional requirements. Practitioners should consider whether any Cayman Islands legislation or regulatory requirement prescribe the auditing standards that may be applied to particular engagements. For example, section 8(1B) of the Mutual Funds Act (as Revised) and section 13(3) of the Private Funds Act (as Revised) prescribe the auditing standards that may be used for the annual audits of regulated mutual funds and registered private funds. The ISA for LCE is not one of the auditing standards prescribed in those provisions and therefore may not be used for the statutory audits of regulated mutual funds or registered private funds.

3A. Status of this Guidance Note

The IAASB's implementation materials recognise that legislative or regulatory authorities, or relevant local bodies with standard-setting authority, may determine how the ISA for LCE is implemented within their jurisdictions, including establishing eligibility thresholds and refining the classes of entities that may use the standard.

CIIPA is not the auditing standard setter for the Cayman Islands and does not possess statutory authority to adopt auditing standards, establish mandatory eligibility thresholds, or modify the Authority section of the ISA for LCE.

Accordingly, this Guidance Note does not:

- adopt the ISA for LCE;
- establish mandatory eligibility criteria;
- prohibit the use of the ISA for LCE for any category of entity; or
- modify any requirement contained within the ISA for LCE.

Rather, the Guidance Note is intended to assist practitioners in exercising professional judgement consistently and appropriately within the Cayman Islands environment.

Where a firm has applied the ISA for LCE, CIIPA may consider the appropriateness of its application and compliance with the standard as part of its existing Quality Assurance Review process.

4. Guidance on Eligibility Considerations

The IAASB's implementation materials recognise that jurisdictions may establish quantitative thresholds, modify certain classes of entities that may use the ISA for LCE, or otherwise provide jurisdiction-specific implementation guidance.

CIIPA has considered the IAASB implementation materials and determined that quantitative thresholds based on revenue, assets, number of employees, or similar measures are not appropriate for determining eligibility in the Cayman Islands context.

In the Cayman Islands context, complexity is frequently driven by the nature of an entity's activities, ownership structures, regulatory obligations, and financial reporting requirements rather than its size. Many Cayman Islands entities operate within the financial services sector and may possess significant structural, regulatory or financial reporting complexity irrespective of their size. Conversely, some larger entities may undertake relatively straightforward activities.

Accordingly, firms should assess eligibility primarily by reference to:

- the qualitative characteristics contemplated by the ISA for LCE;
- the nature and complexity of the entity's operations;
- the complexity of its transactions and financial reporting;
- the existence of public interest characteristics; and
- the Cayman-specific indicators of complexity described in this Guidance Note.

5. Fundamental Principle

The determination of whether an entity qualifies as a less complex entity should be based primarily on the nature and complexity of the entity, its transactions, governance arrangements, and financial reporting environment.

The assessment should not be based solely on the size of the entity, measured by revenue, assets, employees or other quantitative thresholds.

Consistent with the IAASB's approach, complexity is generally associated with factors that create complexity in the preparation and audit of financial statements. Accordingly, firms should focus on whether the entity's structure, operations, transactions or reporting requirements give rise to complexity that is inconsistent with the intended scope of the ISA for LCE.

6. Public Interest Considerations

The Authority section of the ISA for LCE prohibits the use of the standard for entities exhibiting public interest characteristics.

In assessing whether an entity exhibits public interest characteristics, firms should have regard to:

- the definition of Public Interest Entity (“PIE”) contained in the CIIPA Code of Ethics;
- the nature and extent of external stakeholders;
- whether the entity holds assets on behalf of third parties;
- whether the entity performs a significant fiduciary function;
- whether the entity has significant public accountability; and
- the potential impact of audit failure on investors, creditors, policyholders, customers or the public.

Entities meeting the definition of a PIE under the CIIPA Code of Ethics will generally be presumed not to be appropriate candidates for application of the ISA for LCE.

6A. Cayman-Specific Considerations

The IAASB Adoption Guide recommends that jurisdictions identify local legal, regulatory and business considerations when evaluating the use of the ISA for LCE.

In developing this Guidance Note, CIIPA considered a number of Cayman Islands-specific factors, including:

- the Accountants Act and the Accountants (Quality Assurance) Regulations;
- the CIIPA Code of Ethics and Cayman Islands Public Interest Entity definition;
- the significance of the Cayman Islands financial services sector;
- the prevalence of investment fund structures;
- the use of complex cross-border ownership and financing arrangements;
- the presence of entities regulated by the Cayman Islands Monetary Authority (“CIMA”);
- the use of trust, foundation and partnership structures; and
- the importance of maintaining confidence in the quality of audits performed within an international financial centre.

These considerations have informed the indicators of complexity discussed below.

7. Indicators of Complexity

The indicators below are drawn from the IAASB's framework for assessing complexity and are not intended to operate as mandatory exclusions. Rather, they are factors that should be considered as part of the engagement partner's overall assessment of whether the entity exhibits characteristics consistent with a less complex entity. While these indicators are not unique to the Cayman Islands, many are commonly encountered in the jurisdiction's international financial services sector and therefore warrant consideration when assessing eligibility for use of the ISA for LCE.

The presence of one or more of the following factors does not automatically preclude use of the ISA for LCE. Conversely, the absence of such indicators does not automatically establish eligibility. Such factors should be carefully evaluated as part of the overall assessment of whether the entity exhibits the characteristics of a less complex entity.

Regulatory Complexity

- Regulation by CIMA;
- Regulation by a foreign prudential, securities or financial services regulator;
- Licensing, registration or supervision under multiple regulatory regimes.

Public Interest Characteristics

- Classification as a PIE under the CIIPA Code of Ethics;
- Significant public accountability;
- Significant fiduciary responsibilities.

Financial Reporting Complexity

- Significant fair value measurements;
- Complex accounting estimates;
- Derivatives or structured products;
- Securitisation transactions;
- Structured finance arrangements;
- Significant hedge accounting;
- Complex revenue recognition arrangements.

Ownership and Governance Complexity

- Multi-layered ownership structures;
- Use of trusts, foundations or nominee arrangements within ownership chains;
- Significant beneficial ownership complexity;
- Complex governance arrangements.

International Operations

- Significant cross-border operations;
- Multiple reporting jurisdictions;
- Material foreign operations and degree of outsourcing (intra-group or otherwise);
- International financing arrangements.

Group Structures

- Significant group audit considerations;
- Multiple subsidiaries or affiliates;
- Complex consolidation requirements;
- Extensive use of special purpose vehicles.

Digital Assets and Emerging Activities

- Virtual asset activities where obtaining sufficient appropriate audit evidence requires specialised knowledge of digital asset custody, blockchain records, valuation methodologies, or technology controls;
- Digital asset custody arrangements involving self-custody, third-party custodians, or complex arrangements for safeguarding and control of private keys;
- Significant reliance on blockchain technology, smart contracts, or specialised technology platforms relevant to the processing, recording, or safeguarding of assets and transactions.

8. Assessing Group Structures

The existence of a parent entity, including a foreign parent entity, does not automatically preclude the use of the ISA for LCE for a local statutory audit.

Firms should note that the ISA for LCE contains specific provisions relating to group audits in Part 10 and restrictions relating to the involvement of component auditors in the Authority section of the standard. Where the audit involves component auditors, reporting by other auditors, or significant reliance on audit work performed in other jurisdictions, engagement teams should carefully evaluate whether the engagement remains within the intended scope of the ISA for LCE. Firms should also have regard to the restrictions relating to component auditors contained in the Authority section of the ISA for LCE. In particular, the Authority section permits the involvement of a component auditor only in limited circumstances, including where a physical presence is required to perform a specific audit procedure for the group audit. Firms should satisfy themselves that any component auditor involvement falls within the scope permitted by the standard before concluding that use of the ISA for LCE remains appropriate.

When assessing eligibility, firms should consider:

- whether the involvement of component auditors gives rise to considerations relevant to the Authority or Part 10 of the ISA for LCE;
- the nature and complexity of the subsidiary's activities;
- the complexity of the wider group structure, whether significant operational, technology, custody, or transaction-processing functions are performed by other entities within the group;
- whether the audit forms part of a group audit engagement;
- whether additional procedures may be required by the group auditor;
- the extent of reporting required to the parent entity; and
- whether the subsidiary itself exhibits public interest characteristics or other indicators of complexity.

Where a subsidiary qualifies for use of the ISA for LCE, firms should ensure that application of the standard remains compatible with any reporting requirements established by the group auditor.

9. Categories of Entities Generally Not Expected to Qualify

The IAASB implementation materials recognise that jurisdictions may identify categories of entities that exhibit public interest characteristics or otherwise fall outside the intended scope of the ISA for LCE.

CIIPA considers that the following categories of entities will often possess characteristics that are inconsistent with the intended scope of the standard.

Public Interest Entities

Entities meeting the definition of a Public Interest Entity under the CIIPA Code of Ethics.

Regulated Financial Institutions

Including:

- banks;
- trust companies;
- insurance companies;
- reinsurance companies;
- money service businesses;
- building societies;
- co-operative societies;
- companies' management licensees and
- securities investment business licensees.

Investment Fund Structures

Including:

- mutual funds;
- private funds; and
- entities whose activities involve significant fair value measurement of investments, given the prevalence of complex valuation methodologies and investor reporting considerations that frequently arise within such structures.
- Practitioners should also consider the specific audit requirements applicable to entities regulated under the Mutual Funds Act (as Revised) and Private Funds Act (as Revised), including any statutory provisions prescribing the auditing standards that may be applied.

Virtual Asset Service Providers

Entities licensed or registered under the Virtual Asset (Service Providers) Act.

Listed Entities

Entities whose securities are listed on:

- the Cayman Islands Stock Exchange; or
- another recognised stock exchange, with the meaning assigned in section 2 of the Securities Investment Business Act (as Revised).

The existence of exceptional circumstances should be clearly documented where a firm concludes that use of the ISA for LCE remains appropriate for an entity within one of the above categories.

10. Firm Policies, Procedures and Consultation

Firms electing to use the ISA for LCE should establish policies and procedures addressing:

- eligibility assessments;
- engagement acceptance and continuance procedures;
- documentation requirements;
- reassessment of eligibility throughout the engagement;
- transition to the full ISAs where necessary; and
- consultation procedures for borderline or complex cases.

Given the judgement involved in assessing eligibility for use of the ISA for LCE, firms are encouraged to establish policies and consultation processes to support consistent and appropriate eligibility determinations where significant judgement is required in determining whether an entity qualifies as a less complex entity.

11. Reassessment During the Audit

Consistent with the ISA for LCE, auditors should reassess throughout the engagement whether use of the standard remains appropriate.

Indicators that reassessment may be necessary include:

- identification of previously unknown complex transactions;
- significant acquisitions or restructurings;
- emergence of complex accounting estimates;
- identification of significant digital asset custody, valuation, technology control, or blockchain-related audit complexities;
- significant regulatory matters;
- discovery of complex group structures;
- significant fraud matters; or
- other matters suggesting that the entity no longer exhibits the characteristics of a less complex entity.

Where such circumstances arise, the engagement partner should evaluate whether a transition to the ISAs is required.

12. Documentation

The ISA for LCE contains documentation requirements relating to the auditor's assessment of the appropriateness of applying the standard, including documentation of matters relevant to the engagement partner's determination regarding the use of the ISA for LCE. Practitioners should refer to the documentation requirements contained within the ISA for LCE and exercise professional judgement in determining the nature and extent of documentation appropriate in the circumstances of the engagement.

In applying those requirements, practitioners may find it helpful to document matters such as:

- consideration of the requirements of the ISA for LCE;
- consideration of this Guidance Note;
- assessment of public interest characteristics;
- consideration of complexity indicators;
- documentation of any specialised audit considerations, including digital asset custody, valuation, technology controls, reliance on third-party service providers, or other matters requiring specialist expertise;
- consideration of group structures and any involvement of component auditors;
- the rationale supporting the eligibility determination;
- consultations undertaken within the firm, where applicable; and
- reassessment of eligibility following risk identification and assessment.

13. Effective Date

The ISA for LCE is effective for audits of financial statements for periods beginning on or after 15 December 2025.

14. Consultation and Development of this Guidance

The IAASB Adoption Guide recommends that jurisdictions engage with key stakeholders when considering implementation of the ISA for LCE, including regulators, professional accountancy organisations, audit firms and users of financial statements.

Consistent with that recommendation, CIIPA may periodically consult with stakeholders regarding the practical application of the ISA for LCE within the Cayman Islands and may revise this Guidance Note in light of implementation experience.

15. Future Review

The IAASB has indicated that future maintenance of the ISA for LCE will generally follow revisions to the full International Standards on Auditing.

CIIPA will continue to monitor:

- revisions issued by the IAASB;
- implementation experience in other jurisdictions;
- observations from Cayman Islands practitioners;
- developments in the Cayman Islands regulatory environment; and
- international best practices relating to audits of less complex entities.

The IAASB Adoption Guide encourages ongoing engagement and monitoring during implementation of the ISA for LCE. Consistent with that approach, CIIPA may update this Guidance Note from time to time to reflect future developments and emerging issues.

Appendix A – Illustrative ISA for LCE Eligibility Assessment Checklist

The IAASB has not issued a prescribed eligibility checklist. The following checklist is provided solely as a practical aid to assist firms in documenting their eligibility assessment and should not be regarded as mandatory. This checklist is not determinative and does not replace the engagement partner's professional judgement in assessing whether an entity is eligible for use of the ISA for LCE.

A simple checklist could require the engagement partner to document:

Consideration	Yes	No
Entity meets definition of a Public Interest Entity under the CIIPA Code of Ethics	☐	☐
CIMA regulated entity	☐	☐
Listed entity	☐	☐
Investment fund	☐	☐
VASP	☐	☐
Significant fair value accounting	☐	☐
Complex group structure	☐	☐
Multiple jurisdictions	☐	☐
Significant beneficial ownership complexity	☐	☐
Significant fiduciary responsibilities	☐	☐

Conclusion	☐ ISA for LCE appropriate
	☐ ISA for LCE not appropriate
	☐ Consultation required



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