

Audits of Less Complex Entities – Explanation of Significant Changes to Proposed ISA for LCE

This paper explains the significant changes and the rationale for the changes that have been made to the proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the ISA for LCE). The changes are explained from [June 2023 Board meeting](#) (Preface, Authority and Part 1–9) or [July 2023 Board meeting](#) (Part 10). This paper also explains the significant changes and the rationale for the changes to the conforming amendments as reflected in **Agenda Item 2-D**. Unless otherwise indicated, all changes were made in response to Board comments during the June 2023 or July 2023 plenary sessions or received offline.

The changes and renumbering of the paragraphs in sequential order are reflected in the marked draft in **Agenda Item 4-B**.

General

Paragraph	Significant Changes and the Rationale for Those Changes
General	<ul style="list-style-type: none"> • The Less Complex Entities (LCE) Task Force (the Task Force) made a number of changes resulting from a review of Complexity, Understandability, Scalability and Proportionality Drafting Principles and Guidelines (CUSP guidelines). These included: <ul style="list-style-type: none"> ○ Updating conditional requirements to put the condition first in the sentence, where appropriate. ○ Breaking up sentences for understandability. ○ Other consistency and grammatical changes. • The Task Force made changes to use "professional judgment" (i.e., rather than just "judgment") throughout the standard to be consistent with the use of defined term. In cases where the use of "auditor's professional judgment" is better in the context, "auditor's professional judgment" is used. The Task Force also added "maintaining" before professional "skepticism" where appropriate. • The Task Force made changes to use "Laws and regulations" throughout the standard to be consistent with ISA 250 (Revised)¹ and CUSP guidelines when a requirement relates to compliance <i>with</i> laws and regulations (rather than referring to laws or regulations more generally) (see CUSP guidelines paragraph 5.1.5.).

¹ International Standards on Auditing (ISA 250) (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

Paragraph	Significant Changes and the Rationale for Those Changes
	<ul style="list-style-type: none"> The Task Force removed references to “In audits of LCEs” or “In an audit of an LCE” included in EEM throughout the standard as the users of the standard will be undertaking an audit of LCE therefore the specificity is unnecessary.

Preface – ISA for LCE

Paragraph	Significant Changes and the Rationale for Those Changes
P.1.	<ul style="list-style-type: none"> The Task Force moved the sentence “This standard is premised on the basis that the firm is subject to ISQM 1² or to national requirements that are at least as demanding.” from Essential Explanatory Material (EEM) under 1.2.2. to the Preface as it was deemed to fit better in Preface.
P.2.	<ul style="list-style-type: none"> The Task Force changed “applies to” to “is written in the context of” in the first sentence to allow the standard to be adapted, as necessary, to an audit of a complete set of special purpose financial statements, an audit of a single financial statement or of a specific element, account or item of a financial statement.
P.3.	<ul style="list-style-type: none"> The Task Force removed the sentence which describes that the ISAs may provide additional guidance in relation to an audit performed in accordance with the ISA for LCE. In the June 2023 Board meeting strong objection to the addition of this sentence was raised and the Board agreed to remove the sentence from the standard and that the implementation material needs to explain that in certain instances the ISAs may provide guidance.
P.4.	<ul style="list-style-type: none"> The Task Force changed "is appropriate" to “may be used” based on suggestions from the Board. It was noted that “is appropriate” sounds too soft and unduly permissive. It was suggested to use "may be used" since we are expecting specific permissions to be made. The Task Force removed the last sentence acknowledging comments from Board members that the sentence is duplicative and may be unclear.

² International Standard on Quality Management 1 (ISQM 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

Paragraph	Significant Changes and the Rationale for Those Changes
The Applicable Financial Reporting Framework	
EEM under P.7.	<ul style="list-style-type: none"> The Task Force changed the header of the EEM to be consistent with the general construct in the ISAs to list management first, followed by those charged with governance. Paragraph 8.4.2. was changed due to the same reason.
P.8.	<ul style="list-style-type: none"> The Board noted that the two aspects in respective of law and regulation are not clear (i.e., the financial reporting framework may be established by legislation or regulations, <u>and</u> law or regulation may supplement the financial reporting standards established by an authorized or recognized standards setting organization with additional requirements). The Task Force believes having “or legislative or regulatory requirements” is sufficient to address the comment. Per CUSP Guidelines “or” means either one or the other, i.e., could be either A or B (exclusive “or”) or both, i.e., could be A and B (inclusive “or”) (see CUSP Guidelines paragraph 5.1.7.).
P.14. and EEM under P.14.	<ul style="list-style-type: none"> The Task Force moved the EEM under paragraph P.14 to paragraph P.14. (c) and (d) to address the comments provided by the Board that this content is not EEM. It was also noted that the term “box” was unclear since there are boxes used for different purposes throughout the standard (e.g., “The Content of this Part” at the start of each part).
Maintenance of the ISA for LCE	
P.22.	<ul style="list-style-type: none"> The Task Force deleted this paragraph as the Task Force is of the view that the approach for maintaining the standard does not have to be described in the standard. The Task Force noted that there is no similar paragraph in the IAASB Handbook Preface or in the ISAs or other International Standards promulgated by the IAASB and that the paragraph may limit the IAASB’s flexibility to change the approach for updating the standard in the future.

Authority of the ISA for Audits of Financial Statements of Less Complex Entities

Paragraph	Significant Changes and the Rationale for Those Changes
Limitations for Using the ISA for LCE	
A.1. (a)	<ul style="list-style-type: none"> The Task Force updated “an audit” to “the audit” to make it clearer that the prohibition is in the context of law or regulation as relevant for the specific audit rather than any audits in that jurisdiction.

Paragraph	Significant Changes and the Rationale for Those Changes
A.1. (d)(ii)	<ul style="list-style-type: none"> The Task Force updated the description of the exemption relating to component auditors as Board members noted in the July 2023 meeting that the phrase 'documents or records' may be perceived to potentially be wider than intended given how it is used in the ISAs. The Task Force updated it to make it clearer that it is the <i>physical inspection</i> of assets or documents.
EEM under Qualitative Characteristics	<ul style="list-style-type: none"> Second Bullet. The Task Force updated for clarity as it was noted that it may not be clear if 'by the entity' refers to all of the items in list. The revised wording is more consistent with ISA 700 (Revised),³ paragraph A42. Fourth Bullet. The Task Force removed reference to "typical" LCE as it was not deemed necessary. A similar change was made in the EEM under A.4. Fifth Bullet. The Task Force updated the description for further clarity based on the discussion in the June 2023 Board meeting. The Task Force has the view that the updated wording is consistent with how procedures that have not been included in ISA for LCE are described in ISA 402⁴ (i.e., specifically procedures to support the user auditors understanding of design and implementation of controls at the service organization, as well as their operating effectiveness). The Task Force has also added additional EEM under paragraph 6.3.10 to clarify that auditors may still use reports to obtain an understanding of the entity's system of internal control. The Task Force was of the view that this was not deemed appropriate to be included in this EEM to the Authority as the purpose of the EEM is just to describe what procedures aren't included.
A.3.	<ul style="list-style-type: none"> The Task Force removed the third sentence which was added for the July 2023 Board meeting. In the July meeting, the Board acknowledged comments from respondents that numerical indicators may be seen as defined rules rather than example indicators, but suggested to incorporate it in the wording already included in A.3 to avoid repetition and undue emphasis.
Table under A.3.	<ul style="list-style-type: none"> Application of the Financial Reporting Framework and Accounting Estimates. The Task Force edited this characteristic to make it clear that the word "complex" applies to methods, models, assumptions, and data, consistent with previous discussions with the Board. The Task Force also discussed the comment from a Board member questioning if the

³ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

⁴ ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

Paragraph	Significant Changes and the Rationale for Those Changes
	<p>characteristic should refer to “account balances” rather than “accounts” and concluded that “accounts” was appropriate as it relates to the number of different accounts, not just individual balances.</p> <ul style="list-style-type: none"> Group Structure and Activities. The Task Force edited this qualitative characteristic to remove reference to a common economic zone as the Board was generally not supportive of this addition proposed in the July 2023 meeting. The Task Force also removed the reference to “language” and “culture” as these, even though these were just factors that could describe complexity, may be deemed overly restrictive. The Task Force considered that without these revisions the characteristic would be more restrictive than in the Exposure Draft of Part 10, Audits of Group Financial Statements, of the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ED-ISA for LCE-Group Audits) (i.e., components in 3 or less different jurisdictions) and may be interpreted to always exclude situations such as an entity with a component in Netherlands and a component in Germany, or an entity with components in a French-speaking and non-French speaking province of Canada, when it should depend on the related complexity as relevant to the entity and the audit. Consolidation Process. The Task Force moved the final bullet to be the first as it was deemed to be the most relevant.
EEM under A.4.	<ul style="list-style-type: none"> The Task Force clarified the wording in the second and third paragraphs to remove repetition and make it clearer how the IAASB considered the examples of existing definitions or thresholds as indicative. It was also noted that using the word “discussed” was not consistent with drafting principles. The Task Force replaced the second example of an existing threshold based on discussion with the standard setting body in Malaysia. Based on these discussions the Task Force concluded that it may not be a suitable indicator for our purposes. IAASB Staff coordinated with the standard setter in South Africa who confirmed the definition of a small entity added would be appropriate. Given that this definition covers a number of different sectors which all have different numeric values for turnover attached to it, the Task Force did not include such specific numeric values standard but did include the source so users may view them as needed. This approach also makes the standard easier to maintain in future as numerical values may change in the future.
EEM under Responsibilities of Legislative or Regulatory Authorities or	<ul style="list-style-type: none"> The Task Force removed “and quantitative thresholds” as it was noted by the Board that it was confusing that a jurisdiction would consider quantitative thresholds when they have not yet been determined.

Paragraph	Significant Changes and the Rationale for Those Changes
Relevant Local Bodies	

Part 1, Fundamental Concepts, General Principles and Overarching Requirements

Paragraph	Significant Changes and the Rationale for Those Changes
Introductory Box	
1.1. Effective Date	
1.1.1	<ul style="list-style-type: none"> The Task Force updated the effective date to be consistent with date proposed in Agenda Item 2.
1.2. Relevant Ethical Requirements and Firm Level Quality Management	
1.2.2.	<ul style="list-style-type: none"> The Task Force added a requirement acknowledging comments from the Board that it is not consistent with ISA for LCE drafting principles to have the EEM without a requirement. The Task Force based the requirement on paragraph 29 of the Exposure Draft of Proposed ISSA 5000.⁵
EEM below 1.2.2.	<ul style="list-style-type: none"> The Task Force moved a sentence to Preface. Also see comment at P.1.
1.3. Overall Objectives of the Auditor	
1.3.2.	<ul style="list-style-type: none"> The Task Force updated the wording to be consistent with CUSP guidelines. Extant wording matches ISA 200⁶ paragraph 19 but CUSP guidelines are to be applied proactively.

⁵ International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*

⁶ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

Paragraph	Significant Changes and the Rationale for Those Changes
1.4. Fundamental Concepts and General Principles for Performing the Audit	
EEM Under 1.4.5.	<ul style="list-style-type: none"> The Professional Skepticism Consultation Group suggested to add EEM explaining that conditions of the engagement can create pressures on the engagement team that may impede the appropriate exercise of professional skepticism. In response, the Task Force added EEM and included an example specific to an audit of LCE based on an example provided by the respondents to the Exposure Draft of the ISA for LCE (ED-ISA for LCE).
1.5. Fraud	
EEM Under 1.5.	<ul style="list-style-type: none"> Second and third paragraph. The Task Force reversed the order of second and third paragraph to address comments from the Board that the flow could be enhanced if the concept of misstatements arising from either fraud or error and how these may arise is first. This order is also more aligned with ISA 240⁷ (paragraphs 2, 3, and 5, 6). Third paragraph. The Task Force added back the first sentence per comments obtained during the June 2023 Board meeting that it was useful.
1.5.2.	<ul style="list-style-type: none"> In the June 2023 meeting it was suggested to see whether anything else needs to be added from ISA 240, paragraph 39 since "determine the legal and professional responsibilities" is a bit vague. The Task Force looked into this requirement but noted that ISA 240 paragraph 39 requires more than what is expected for an audit of LCE and also those specifics will likely be covered by the local law or regulation. Therefore, the Task Force decided not to make any changes.
1.7. Related Parties	
EEM under 1.7.1.	<ul style="list-style-type: none"> To make the EEM clearer, the Task Force clarified the relevant frameworks and aligned with ISA 550⁸ paragraph 4.

⁷ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

⁸ ISA 550, *Related Parties*

Paragraph	Significant Changes and the Rationale for Those Changes
1.8. General Communications with Management and Those Charged with Governance	
1.8.2.	<ul style="list-style-type: none"> The Task Force added a requirement based on ISA 260 (Revised)⁹ paragraph 16A (see the conforming amendments arising from the Listed Entity and Public Interest Entity (PIE) Track 1 project in the June 2023 Board meeting). The last part of paragraph 16A "including if applicable in the circumstances, any independence requirements specific to audits of financial statements of certain entities." was not added since PIEs are out of scope for the ISA for LCE.
EEM under 1.8.4.	<ul style="list-style-type: none"> Second paragraph second sentence. The Task Force made changes to address comments from the Board that the extant wording undermines the requirement for written communication as per paragraph 8.8.2(f).

Part 2, Audit Evidence and Documentation

Paragraph	Significant Changes and the Rationale for Those Changes
2.4. General Documentation Requirements	
EEM under 2.4.	<ul style="list-style-type: none"> The Task Force moved EEM from under 2.5.4 based on suggestions from the Board that it fits better at the start of the section given that it is a general statement.
EEM under 2.4.1.	<ul style="list-style-type: none"> The Task Force deleted this paragraph as it was repetitive with EEM under paragraph 2.3.
2.4.2.	<ul style="list-style-type: none"> The Task Force added "by the auditor" to make it clear who is performing the action. This is consistent with ISA 230,¹⁰ paragraph 11.

⁹ ISA 260 (Revised), *Communication with Those Charged with Governance*

¹⁰ ISA 230, *Audit Documentation*

Part 3, Engagement Quality Management

Paragraph	Significant Changes and the Rationale for Those Changes
3.2.1.	<ul style="list-style-type: none"> • During the June 2023 Board meeting, it was noted that the engagement partner’s responsibility to be sufficiently and appropriately involved throughout the audit engagement does not just apply if there is an engagement team. Therefore, the Task Force has moved paragraph 3.2.1A(a) as presented in Agenda Item 4-B of the June 2023 Board meeting to paragraph 3.2.1(a) as presented in Agenda Item 2-B.
3.2.11./ 3.3.1.(a)	<ul style="list-style-type: none"> • During the June 2023 Board meeting, it was noted that this requirement is also relevant when there are no other engagement team members as not all audit documentation will be produced directly by the partner. In that regard it was noted that responses to consultation, matters related to inspection findings, engagement quality review may be included in the engagement documentation and should be reviewed by the engagement partner. The Task Force discussed each of the situations highlighted and noted that: <ul style="list-style-type: none"> ○ Paragraph 3.2.9(b) requires the engagement partner to take responsibility for consultations being undertaken in accordance with the firm’s related policies or procedures, or where deemed necessary on difficult or contentious matters. Given this requirement, the engagement partner is required to document consultations and there is no need for the engagement partner to review the related audit documentation. ○ Paragraph 3.2.8(a) requires the engagement partner to obtain an understanding of the information from the monitoring and remediation process of the network and across the network firms and determine the relevance and effect of that information on the audit engagement and take appropriate action. Given this requirement the engagement partner is required to document any findings and actions taken. Therefore, the Task Force is of the view that there is no need for the engagement partner to review the related audit documentation. ○ Paragraph 3.2.10(b) requires the engagement partner to discuss significant matters and significant judgments arising during the audit with the engagement quality reviewer. Given this requirement, the engagement partner is required to document these significant matters and judgements and there is no need for the engagement partner to review the related audit documentation. However, the Task Force recognizes that there is no requirement for the engagement partner to document that the engagement quality review has been completed on or before the date of the auditor’s report, ISA 220 (Revised)¹¹ paragraph 41(c) requires this as well and therefore the Task Force added this requirement.

¹¹ ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*

Paragraph	Significant Changes and the Rationale for Those Changes
	The Task Force thinks this appropriately addresses the concerns and is generally of the view that paragraph 3.2.11 should be inside the box as it otherwise may be confusing. A sole engagement partner is still responsible for documenting its interactions related to consultation, matters related to inspection findings, engagement quality review and therefore don't need to then also review it.

Part 4, *Acceptance or Continuance of an Audit Engagement*

Paragraph	Significant Changes and the Rationale for Those Changes
4.3. Considerations in Engagement Acceptance or Continuance	
EEM above 4.3.1	<ul style="list-style-type: none"> Considering the content of the EEM, the Task Force is of the view that the EEM from above paragraph 4.4.1. is best placed here.
4.3.1.	<ul style="list-style-type: none"> The Task Force changed the structure to make it clearer the requirement is requiring the engagement partner's judgment. The Task Force changed the wording at (b) to be clear that the engagement partner shall determine the conclusions on the undertake of audit engagement using the ISA for LCE is appropriate. Board members noted that the wording proposed at the June 2023 Board meeting did not read right and could imply that the standard itself may not be used properly.

Part 5, *Planning*

Paragraph	Significant Changes and the Rationale for Those Changes
Introductory Box	
Scope of this Part	<ul style="list-style-type: none"> The Task Force made changes to align to ISA 300¹² paragraph A2 as the review of CUSP reviewer noted this was difficult to understand.

¹² ISA 300, *Planning an Audit of Financial Statements*

Paragraph	Significant Changes and the Rationale for Those Changes
5.2. Planning Activities	
Box Encompassing 5.2.2. and 5.2.3.	<ul style="list-style-type: none"> The Task Force changed the location of the requirements as, considering the context of the requirements, they are better located after 5.2.1.
5.2.4.	<ul style="list-style-type: none"> The Task Force replaced “take into account” with “consider” per CUSP Guidelines.
5.2.12.	<ul style="list-style-type: none"> The Task Force updated the wording to better align with ISA 620¹³ paragraphs 9–11. Offline comments received, suggested to change the references to “auditor’s expert” to “auditor’s external expert”. The Task Force noted that the related ISAs do not only relate to external experts but also internal experts. Given that the wording may cause confusion, the Task Force decided to align the requirement with ISA 620.
5.3 Materiality	
EEM under 5.3.1.	<p><i>“Use of Benchmarks in Determining Materiality for the Financial Statements as a Whole”</i></p> <ul style="list-style-type: none"> Second paragraph. The Task Force added an example for a not-for-profit organization as it was noted by the Board that many not-for-profit entities are less complex and may use the standard. Fourth paragraph. The sentence was removed before the June 2023 Board meeting. However, a Board member noted that this sentence should be retained since it is acknowledging the relationship between the selected benchmark and the percentage applied.
5.5. Specific Documentation Requirements	
5.5.1.	<ul style="list-style-type: none"> The Task Force added to the requirement the need to include in the audit documentation a description of the nature, timing and extent of the procedures to be performed. In the June 2023 Board meeting, it was noted that the standard is missing a documentation requirement related to procedures to be performed. The Task Force proposes to address the comment by adding a requirement which is consistent with the related performance requirement in paragraph 5.2.2(e).

¹³ ISA 620, *Using the Work of an Auditor’s Expert*

Paragraph	Significant Changes and the Rationale for Those Changes
5.5.3.	<ul style="list-style-type: none"> The Task Force added more context to address the Board member’s comment at the June 2023 Board meeting. In that meeting it was noted that it is unclear what is expected to be documented relating to the discussion with the engagement team. The requirement is enhanced by aligning it with ISA 240 paragraph 45. In addition, the requirement is moved under paragraph 5.5.2. since the requirements are similar.
5.5.4.	<ul style="list-style-type: none"> The Task Force clarified that the factors considered to be included in the audit documentation only relate to materiality and not to the amount below which misstatements would be considered clearly trivial(see paragraph 5.5.4(d)).

Part 6, Risk Identification and Assessment

Paragraph	Significant Changes and the Rationale for Those Changes
6.2. Procedures for Identifying and Assessing Risks and Related Activities	
EEM under 6.2.3.	<ul style="list-style-type: none"> Second paragraph. The Task Force clarified that the analytical procedures were related to those to identify and assess risks of material misstatement (rather than those used as further audit procedures) to address a comment from the Board that there otherwise may be confusion between the two types of procedures. Paragraph 3. Based on comments from the Board in June 2023, the Task Force removed the detail relating to interim or monthly balances as these situations may not be common for an LCE and the specificity was deemed unnecessary.
6.2.4.(b)	<ul style="list-style-type: none"> The Task Force updated this requirement to be more consistent with terminology used in ISA 550. The Task Force did not update the related title in the EEM as it, like the other titles, summarizes the content in that section.
6.3. Understanding Relevant Aspects of the Entity	
6.3.3.	<ul style="list-style-type: none"> Moved this requirement from Part 7 to Part 6 given that this is a risk assessment procedure. This requirement is based on ISA 550, paragraph 13 which is located in the risk assessment section of ISA 550.
6.3.5.	<ul style="list-style-type: none"> The Task Force revised the requirement to make it clearer what is to be understood as it otherwise may not be clear.

Paragraph	Significant Changes and the Rationale for Those Changes
EEM under 6.3.11.	<ul style="list-style-type: none"> The Task Force added EEM to explain what procedures are included in the ISA for LCE relating to service organizations. As described above (see paragraph A4 of the Authority), this language is consistent with how the procedures that are excluded from ISA 402 are described and clarifies that the auditor may still use the reports for overall understanding of the entity's system of internal control.
6.3.12.	<ul style="list-style-type: none"> Bullet (b). The Task Force clarified that the auditor needs to evaluate the controls relating to the journal entries to record non-recurring, unusual transactions or adjustments. Bullet (d). The Task Force revised this requirement to align better with ISA 550.
6.3.14.	<ul style="list-style-type: none"> The Task Force aligned this requirement with ISA 265¹⁴ paragraph 8.
6.4. Identifying and Assessing the Risks of Material Misstatement	
EEM under 6.4.1, 6.4.3. and 6.4.8.	<ul style="list-style-type: none"> The Task Force replaced 'take into account' with "consider" in line with CUSP Guidelines.
6.5. Evaluation of the Appropriateness of Using the ISA for LCE	
EEM under 6.5.1.	<ul style="list-style-type: none"> The Task Force clarified that transitioning may be to another applicable standard (e.g., a jurisdictional equivalent or a standard to perform a compilation or review).
6.7. Specific Documentation Requirements	
6.7.1.(b) and related EEM	<ul style="list-style-type: none"> The Task Force added a requirement to document the procedures on which the auditor based the assessment of risks of material misstatement to reflect a Board member comment that the procedures performed should be documented. Due to the addition, EEM under 6.7.1 (a) was no longer necessary and has been deleted.

¹⁴ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

Part 7, Responding to Assessed Risks of Material Misstatement

Paragraph	Significant Changes and the Rationale for Those Changes
Responding to Assessed Risks of Material Misstatement	
Content of this Part	<ul style="list-style-type: none"> Deleted the reference to Part 2.4 as that part was deleted.
7.2 Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Financial Statement Level	
EEM under 7.2.1.	<ul style="list-style-type: none"> Several changes were made to align the wording with the wording used in the EEM under paragraph 6.3.6.
EEM under 7.2.2.	<ul style="list-style-type: none"> During the June 2023 Board meeting it was suggested to delete some of the examples given that they are not applicable to a typical LCE. The Task Force was of the view that including all of these examples is nevertheless useful as auditors are struggling with incorporating an element of unpredictability and all of these examples may still apply to an LCE (e.g., an LCE may have different locations).
7.3 Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level	
EEM under 7.3.2.	<ul style="list-style-type: none"> The Task Force removed “In an audit of an LCEs” for the reasons described under the general section above. However, the Task Force added “In some audits” to highlight the fact that the guidance may not be applicable to all audits conducted under the ISA for LCE.
EEM under 7.3.14.	<ul style="list-style-type: none"> During the June 2023 Board meeting, it was noted that the first paragraph of EEM under 7.3.14 is confusing. The Task Force went back to a similar paragraph in ISA 330¹⁵ (paragraph A43) and noted that this paragraph has an introductory sentence which is not included in the ISA for LCE. To address the concern raised the Task Force swapped the first and second sentence.
EEM under 7.3.16.	<ul style="list-style-type: none"> During the June 2023 Board meeting, it was noted that the EEM does not explain what the auditor should do when there are differences when using substantive analytical procedures and that such guidance is critical for the standard

¹⁵ ISA 330, *The Auditor’s Responses to Assessed Risks*

Paragraph	Significant Changes and the Rationale for Those Changes
	to be operate as a standalone standard. The Task Force noted that respondents had also raised this point and therefore added EEM based on ISA 520 ¹⁶ paragraph A16.
7.3.17.(d)	<ul style="list-style-type: none"> The Task Force noted that because of deletions the sentence wasn't reading properly anymore. Therefore, the Task Force, aligned the wording with paragraphs 9, 10 and 11 of ISA 530.¹⁷
EEM under 7.3.17.	<ul style="list-style-type: none"> Sample design, second bullet: In the offline comments received after the June 2023 Board meeting, it was noted that this bullet was missing the context from the first part of the sentence in ISA 530 paragraph A5. Therefore, the Task Force aligned this bullet with ISA 530, paragraph A5.
7.3.26.	<ul style="list-style-type: none"> During the June 2023 Board meeting, it was noted that a paragraph similar to ISA 505¹⁸ paragraph 13 should be added: <i>If the auditor has determined that a response to a positive confirmation request is necessary to obtain sufficient appropriate audit evidence, alternative audit procedures will not provide the audit evidence the auditor requires. If the auditor does not obtain such confirmation, the auditor shall determine the implications for the audit and the auditor's opinion.</i> <p>The Task Force is of the view that the most common use of confirmations in a LCE audit wouldn't fall into the category described by ISA 505, paragraph 13 (i.e., alternative procedures would be appropriate and would be performed for non-responses) and therefore did not add it.</p>
7.4 Specific Focus Areas	
EEM under Going Concern	<ul style="list-style-type: none"> The Task Force changed the structure of the paragraph the sentence is quite long and difficult to read.
7.4.8. / 7.4.9.	<ul style="list-style-type: none"> In the offline comments received after the June 2023 Board meeting, it was not that in ISA 550, the auditor first confirms the existence of related party relationships or transactions (paragraph 21) and then performs the

¹⁶ ISA 520, *Analytical Procedures*

¹⁷ ISA 530, *Audit Sampling*

¹⁸ ISA 505, *External Confirmations*

Paragraph	Significant Changes and the Rationale for Those Changes
	<p>procedures in paragraph .22 on those confirmed related party relationships or transactions. It was noted that by combining the requirements into one paragraph, the auditor is required to perform all of the procedures in situations where the existence of the related party relationship or transaction is unconfirmed. Therefore, the ISA for LCE would be stricter than the ISAs. The Task Force made changes to align the ISA for LCE with ISA 550.</p>
7.4.10.	<ul style="list-style-type: none"> During the June 2023 Board meeting, it was noted that the deletion of paragraph 7.4.11(b) as per Agenda Item 4-B of the June 2023 Board meeting, the promptness of the communication of related parties or significant related party transactions that management has not previously identified or disclosed to the auditor is missing. To address this concern the Task Force added this paragraph.
7.4.17.(d)	<ul style="list-style-type: none"> It was noted that this bullet is quite long and that it has a different tone than the other bullets. To address this comment, the Task Force aligned this bullet closer to ISA 540 (Revised)¹⁹ paragraph 32 (second and third sentence).
7.4.18.	<ul style="list-style-type: none"> It was noted that this paragraph was not aligned with ISA 540 (Revised) paragraphs 26 and 27. Therefore, the Task Force made several changes to further align this paragraph with ISA 540 (Revised).
7.4.27.	<ul style="list-style-type: none"> During the June 2023 Board meeting, it was noted that ISA 250 paragraphs A23–A25 provide more guidance about what appropriate actions may be. Therefore, it was suggested that something along those lines could be included in the ISA for LCE. The TF determined that to remain principles-based, the wording as drafted was sufficient and that the engagement partner would be aware of the appropriate actions without the need for a prescriptive requirement.
<p>7.5. Accumulation of Misstatements</p>	
7.5.3.	<ul style="list-style-type: none"> During the June 2023 Board meeting, it was noted that the EEM that was added was useful but that it does not address respondents' concerns that ISA 450²⁰ paragraph 7 was not included. This requirement requires the auditor to perform additional audit procedures to determine whether misstatements remain after management has examined (at the auditor's request) a class of transactions, account balance or disclosure and corrected misstatements that

¹⁹ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

²⁰ ISA 450, *Evaluation of Misstatements Identified During the Audit*

Paragraph	Significant Changes and the Rationale for Those Changes
	were detected. It was noted that not including this requirement could imply that it is not required. Based on the comments made and the comments from respondents to the ED-ISA for LCE, the Task Force added a requirement similar to ISA 450 paragraph A7. Given this addition the Task Force is of the view that the first sentence of EEM is redundant.
7.6. Specific Communication Requirements	
7.6.1.	<ul style="list-style-type: none"> • During the June 2023 Board meeting, it was noted that the construct of paragraph 7.6.1 was not clear and therefore could cause confusion and inconsistency in practice. To address this concern, the Task Force enhanced the structure by: <ul style="list-style-type: none"> ○ Having who to communicate with (management or those charged with governance) and how to communicate (whether it should be in writing) first; and ○ Added on a timely basis” to the lead instead of having it in the sub bullets.
7.6.3.	<ul style="list-style-type: none"> • The Task Force replaced “takes into account” with “consider” per CUSP Guidelines.

Part 8, Concluding

Paragraph	Significant Changes and the Rationale for Those Changes
Introductory Box	
Content of this Part	<ul style="list-style-type: none"> • The Task Force made changes for consistency.
8.4. Subsequent Events	
8.4.6. and related EEM	<ul style="list-style-type: none"> • 8.4.6 – Introduction: The Task Force moved the EEM to the lead in of the requirement and aligned the requirement with ISA 560²¹ paragraph 13 as it was noted that the EEM may have a risk to be interpreted as overriding paragraph 8.4.6.(a).

²¹ ISA 560, *Subsequent Events*

Paragraph	Significant Changes and the Rationale for Those Changes
	<ul style="list-style-type: none"> 8.4.6(b): The Task Force aligned 8.4.6.(b) with ISA 560 paragraph 13(b) as it was noted that paragraph 8.4.6.(b) was missing context, especially the part not to issue the financial statements to third parties before necessary amendments have been made.
8.4.8.(a)	<ul style="list-style-type: none"> The Task Force updated the requirement to align with ISA 560 paragraph 15(c). The Task Force also added a footnote to refer to paragraph 9.6.7. based on a suggestion from the Board. The reference was added as a footnote to be consistent with other places in the standard.
8.6. Written Representations	
8.6.1.	<ul style="list-style-type: none"> During the June 2023 Board meeting it was noted the written representations for the scenario where management has identified an adjustment to prior periods that affects the comparability of the financial statements should be included in the requirement. The Task Force noted that ISA 710²² paragraph 9 is reflected in paragraph 8.6.1.(n) and 8.6.8 (last sentence) thus did not make any changes.
8.6.5., 8.6.6. and 8.6.7.	<ul style="list-style-type: none"> The Task Force added a new requirement in paragraph 8.6.7. based on ISA 580,²³ paragraph 20. In addition, reference is made from paragraph 8.6.5 and 8.6.6 to paragraph 8.6.7. to align with ISA 580 paragraphs 18 and 19(c). The changes were made to address the Board members' comment that the auditor's action when written representations are not reliable or not provided is not clear and needed to be added given the standalone nature of the standard.
EEM under 8.6.5.	<ul style="list-style-type: none"> The Task Force added EEM that is based on ISA 580 paragraphs A23–A25 as it was suggested to add guidance on what steps the auditor may take when there is doubt as to the reliability of written representations.
8.7. Taking Overall Responsibility for Managing and Achieving Quality	
8.7.3.	<ul style="list-style-type: none"> The Task Force aligned the requirement closer to the wording in ISA 220 (Revised) paragraph 33.

²² ISA 710, *Comparative Information-Corresponding Figures and Comparative Financial Statements*

²³ ISA 580, *Written Representations*

Paragraph	Significant Changes and the Rationale for Those Changes
8.9. Specific Documentation Requirements	
EEM under 8.9.3.	<ul style="list-style-type: none"> The Task Force added EEM explaining what “a timely basis” for assembling the final audit file may be. This EEM is based on ISA 230 paragraph A21 and addresses a Board member’s comment that this guidance may be needed given the standalone nature of the standard.
EEM under 8.9.4.	<ul style="list-style-type: none"> Similarly, EEM under 8.9.4 was added for “retention period.” This EEM is based on ISA 230 paragraph A23.

Part 9, Forming an Opinion and Reporting

Paragraph	Significant Changes and the Rationale for Those Changes
Scope of this Part	<ul style="list-style-type: none"> The Task Force revised the description by using terminology deemed more appropriate to the content (i.e., “adjustment” may not be understood in the context of auditor reporting).
9.4. Auditor’s Report	
9.4.1.(a)	<ul style="list-style-type: none"> The Task Force updated the requirement to be more consistent with how such situations are described in ISA 700, paragraph 50 and to clarify the requirement. The Task Force considered if EEM should be added to describe “significant elements” of the specified format and content of the report but concluded that it was more appropriate to continue to include these in the Supplemental Guide on Auditor Reporting.
Auditors Report	<ul style="list-style-type: none"> The Task Force updated the first paragraph of the independent auditor’s report (‘material accounting policy information’) to be consistent with changes made to IAS 1.²⁴ . Although the auditor’s report is framework neutral, the Task Force is of the view that, as the other illustrative report names use International Financial Reporting Standards (IFRS) terminology, this should be revised for consistency.

²⁴ International Accounting Standard (IAS) 1, *Presentation of Financial Statements*

Paragraph	Significant Changes and the Rationale for Those Changes
9.5. Modifications to the Opinion	
9.5.3.	<ul style="list-style-type: none"> The Task Force added additional illustrative wording to reflect the requirement in ISA 705 (Revised),²⁵ paragraph 19.
9.5.3.–9.5.6.	<ul style="list-style-type: none"> The Task Force added additional square brackets to reflect what may be tailored and updated wording to the correct voice (i.e., “we do” rather than “the auditor does”).
9.5.9.	<ul style="list-style-type: none"> The Task Force clarified the requirement related to the predecessor auditor’s opinion for clarity.
9.5.28.	<ul style="list-style-type: none"> The Task Force removed the checkmark relating to the possibility of a qualified opinion based on a suggestion by the Auditor Reporting Consultation Group. It was noted that if the matter cannot be resolved (e.g., through additional disclosures as described in paragraph 17 of ISA 700 (Revised)), only an adverse opinion would be appropriate.
9.5.33.	<ul style="list-style-type: none"> The Task Force added clarity which section of the auditors report would need to be amended. The Task Force considered if requirements related to ISA 705 (Revised), paragraph 15 (i.e., “piecemeal opinions”) should be included, but consistent with the approach described in ED-ISA for LCE, concluded it would not be common in an LCE engagement, and would be addressed by guidance on how the ISA for LCE may be adapted for an audit of a single financial statement or of a specific element, account or item of a financial statement.
9.6. Other Paragraphs in the Auditor’s Report	
9.6.1	<ul style="list-style-type: none"> The Task Force clarified this paragraph and made it more consistent with the requirement in ISA 706 (Revised).²⁶
9.7. Comparative Information–Corresponding Figures and Comparative Financial Statements	
9.7.3. and EEM under 9.7.4	<ul style="list-style-type: none"> The Task Force separated the requirements for ISA 710 paragraphs 13 and 17 into two requirements as Board members noted that the previous approach of combining the requirement from ISA 710 paragraphs 13 and 17 in one requirement and related EEM was confusing. Due to this, the EEM under 9.7.4 was removed.

²⁵ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor’s Report*

²⁶ ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report*

Paragraph	Significant Changes and the Rationale for Those Changes
9.8. Other Information	
9.8.8.	<ul style="list-style-type: none"> The Task Force moved Table E as it was deemed more appropriate under 9.8.7, of which provided explanation of the content of the table.

Part 10, Audits of Group Financial Statements

Paragraph	Significant Changes and the Rationale for Those Changes
10.3. Materiality	
EEM under 10.3.1.	<ul style="list-style-type: none"> The Task Force replaced “take into account” with “consider” per CUSP Guidelines.
10.4. Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group’s System of Internal Control	
10.4.1.(a)(i)	<ul style="list-style-type: none"> In the July 2023 Board call, it was questioned whether the wording in 10.4.1(a) with respect to “operations and IT systems” may go beyond what is required by ISA 600 (Revised)²⁷. After reviewing ISA 600 (Revised), the Task Force’ agrees – ISA 600 (Revised) requires an understanding about the extent to which the group's model integrates the use of IT while the requirement as presented to the Board in July required an understanding the IT systems. Therefore, the Task Force aligned the requirement closer to ISA 600 (Revised) paragraph 30.
10.7. Specific Communication Requirements	
10.7.1.	<ul style="list-style-type: none"> In the July 2023 Board call, it was noted that this requirement may be duplicating paragraph 1.8.6. The Task Force noted that although both requirements discussed the need to communicate to management the fraud or indication of fraud, the requirement in Part 10 is slightly different as it adds consideration for group management, component management and

²⁷ ISA 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

Paragraph	Significant Changes and the Rationale for Those Changes
	the group's system of internal control. In addition, given the focus on Fraud, the Task Force believes it is in the public interest to keep this requirement.
10.8. Specific Documentation Requirements	
10.8.1.	<ul style="list-style-type: none"> • Changes were made to this section to keep it consistent with changes made in other parts since the ED-ISA for LCE-Group Audits was published.

Appendices

Reference	Significant Changes and the Rationale for Those Changes
Appendix 1	<p>The Glossary of Terms has been updated to align with the changes made to the ISA for LCE, including:</p> <ul style="list-style-type: none"> • Adding definitions of “special purpose financial statements” and “special purpose framework” as the Preface has been updated to refer to some of the ISAs in the ISA 800 series.²⁸ • Adding definition of “service auditor” and “user entity” given changes in the Authority related to the use of service organizations. • Adding definitions related to audit sampling, following the revisions to Part 7, including: <ul style="list-style-type: none"> ○ Statistical sampling; ○ Stratification; ○ Tolerable misstatement; and ○ Tolerable rate of deviation. • Adding definitions based on further revisions to the ISA for LCE, including: <ul style="list-style-type: none"> ○ Date of approval of the financial statements;

²⁸ The ISA 800-series includes: ISA 800 (Revised), *Special Considerations – Audits of Financial Statements prepared in accordance with Special Purpose Frameworks*; ISA 805 (Revised), *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* and ISA 810 (Revised), *Engagements to Report on Summary Financial Statements*.

Reference	Significant Changes and the Rationale for Those Changes
	<ul style="list-style-type: none"> ○ External information source; ○ Internal auditors; ○ IFRS; and ○ Key audit matters. ● Removing definitions as they are no longer used in the ISA for LCE due to revisions made: <ul style="list-style-type: none"> ○ Entity’s risk assessment process; ○ Information system relevant to financial reporting (or relevant to the preparation of financial statements); ○ Inherent risk factors; ○ Monitoring of controls (or Monitoring of the system of internal control); and ○ Internal control system. ● Removing a part of the definition of “system of internal control” as the ISA for LCE does not refer to the specific components of a system of internal control in the same way as the ISAs. The Task Force is of the view this is appropriate as the rest of the definition from the ISAs is still relevant and is used. ● Updated the definition of “Service Organization” to be consistent with equivalent terms used in ISA for LCE. ● Updated the definition of “Significant Risk” to reflect the fact that the ISA for LCE does not specifically require the auditor to take into account inherent risk factors when assessing inherent risk (factors to consider are instead included in EEM). ● Updating the definition of “independence” to be consistent with the provisions of the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards).
Appendix 2	<ul style="list-style-type: none"> ● The Task Force added brackets around “and fair presentation” as it is not applicable to an audit performed using a compliance framework.
Appendix 4	<ul style="list-style-type: none"> ● The Task Force made changes to be consistent with the requirements in the ISA for LCE which does not refer to the five components of system of internal controls.

Conforming Amendments

Reference	Significant Changes and the Rationale for Those Changes
Preface to the International Quality Management, Auditing, Review and Other Assurance and Related Services Pronouncements	
Paragraph 5	<ul style="list-style-type: none"> The Task Force changed the structure to bullets to clarify that in the case of an audit of historical financial information, there are two alternative standards available: the ISAs or the ISA for LCE. The Task Force further specified when the ISA for LCE can be applied.
ISQM 1, <i>Quality Management for Firms that Perform Audits or Review of Financial Statements, or Other Assurance or Related Services Engagements</i>	
Paragraph A1	<ul style="list-style-type: none"> The Task Force added a reference to the ISA for LCE to acknowledge the ISA for LCE standard in the scope of ISQM 1.
Paragraph A8	<ul style="list-style-type: none"> See paragraphs 10–12 of Agenda Item 2
Paragraphs A83 and A85	<ul style="list-style-type: none"> The Task Force added a reference to the ISA for LCE to the application material, as this guidance is applicable for audits of LCEs as well.
ISQM 2, <i>Engagement Quality Review</i>	
Paragraph 10	<ul style="list-style-type: none"> See paragraphs 10–12 of Agenda Item 2
Paragraph A0A	<ul style="list-style-type: none"> See paragraphs 10–12 of Agenda Item 2
International Standard on Assurance Engagement (ISAE) 3000, <i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i>	
Paragraph 1	<ul style="list-style-type: none"> The Task Force added a reference to the ISA for LCE to acknowledge the ISA for LCE as an alternative standard under which an auditor may conduct an audit of financial statements.

Reference	Significant Changes and the Rationale for Those Changes
International Standard on Review Engagement (ISRE) 2400, Engagements to Review Historical Financial Statements	
Paragraph 86	<ul style="list-style-type: none"> See paragraphs 13–14 of Agenda Item 2.
Illustrative Reports	<ul style="list-style-type: none"> See paragraphs 13–14 of Agenda Item 2.
International Framework for Assurance Engagements	
Paragraph 2	<ul style="list-style-type: none"> The Task Force added a reference to the ISA for LCE to acknowledge the ISA for LCE as an alternative standard under which an auditor may conduct an audit of financial statements.
Appendix 1	<ul style="list-style-type: none"> The LCE Task Force added a box for the ISA for LCE in the structure of the IAASB standards
International Auditing Practicing Note 1000	
Content box	<ul style="list-style-type: none"> The Task Force added a reference to the ISA for LCE to acknowledge the ISA for LCE as an alternative standard under which an auditor may conduct an audit of financial statements.
Paragraph 7	<ul style="list-style-type: none"> The Task Force added a reference to the ISA for LCE to acknowledge the ISA for LCE as an alternative standard under which an auditor may conduct an audit of financial statements.