

# Agenda Item

## 6-B.2

### Maintenance of the ISA for LCE<sup>1</sup> – Drafting Rationale

This agenda item sets out the revisions made in the International Standards on Auditing (ISAs) that are in-scope for the ISA for LCE maintenance project in **Part 5** and the Project Team's views and recommendations to align, in a proportionate way, the proposed drafting for revisions to the ISA for LCE (herein referred to as proposed ISA for LCE (Revised)) with the ISAs. This agenda item must be read together with **Agenda Items 6, 6-A and 6-C**.

#### Part 5, Planning

Revisions to the ISAs	Project Team's Views and Recommendations for the Proposed ISA for LCE (Revised)
<b>ISA 240 (Revised)<sup>2</sup></b>	
6. The engagement team discussion is not sufficiently robust with respect to the auditor's considerations of fraud throughout the audit.	
<p><i>Paragraphs 29, A43, A53–A59</i></p> <ul style="list-style-type: none"> <li>Enhanced requirements by clarifying that the discussion is between the engagement partner and other key engagement team members, and specifying what topics are required to be discussed, including: <ul style="list-style-type: none"> <li>An exchange of ideas about the entity's culture, management's commitment to integrity and ethical values, the related oversight by TCWG, fraud risk factors, which types of revenue, revenue transactions or relevant assertions may give rise to the ROMMs due to fraud in revenue recognition and how management may be able</li> </ul> </li> </ul>	<p><i>Essential Explanatory Material (EEM) under paragraph 5.2.7.</i></p> <ul style="list-style-type: none"> <li>The Project Team notes the importance of discussing fraud related matters in the engagement team discussion. To retain a clear and proportionate requirement, the Project Team proposes not changing the requirement in paragraph 5.2.7, and, to ensure consistent application, including topics to be discussed from paragraph 29 of ISA 240 (Revised) in the EEM under paragraph 5.2.7 (second paragraph).</li> <li>The Project Team added EEM under paragraph 5.2.7 (third paragraph) based on paragraph A58 of ISA 240 (Revised) to highlight how the engagement team discussion may focus on</li> </ul>

<sup>1</sup> International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the ISA for LCE)

<sup>2</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

Revisions to the ISAs	Project Team's Views and Recommendations for the Proposed ISA for LCE (Revised)
<p>to override controls; and</p> <ul style="list-style-type: none"> <li>○ Consideration of any fraud or suspected fraud that may impact the overall audit strategy and audit plan for the audit engagement</li> <li>• Added application material, with examples, explaining that depending on the nature and circumstances of the audit engagement and the occurrence of events or conditions, it may be beneficial to hold further engagement team discussions.</li> <li>• Added application material explaining that the involvement and contributions of individuals with specialized skills or knowledge may elevate the quality of the engagement team discussion.</li> </ul>	<p>matters related to fraud. It was deemed essential to trigger auditors of LCEs to think “outside the box.”</p>
<p>20. Third party fraud – clarity is needed around the auditor’s actions with respect to third party fraud.</p>	
<p><i>Paragraphs 29(a)(ii)(c) and A57</i></p> <ul style="list-style-type: none"> <li>• Enhanced requirements and related application material addressing third-party fraud by requiring that the engagement team discussion shall include an exchange of ideas about how assets of the entity could be misappropriated by third parties.</li> </ul>	<p><i>EEM under paragraph 5.2.7.</i></p> <ul style="list-style-type: none"> <li>• The Project Team proposes including a reference to third-party fraud in the EEM under paragraph 5.2.7 (second paragraph, third bullet) as a topic for the engagement team discussion. The Project Team is of the view that this will serve as an effective reminder about the risks of third-party fraud.</li> </ul>
<p>21. Audit documentation – clarity is needed on what needs to be documented for fraud when identifying and assessing the risk of material misstatement, performing audit procedures and concluding.</p>	
<p><i>Paragraph 68(a) and A206</i></p> <ul style="list-style-type: none"> <li>• Added a requirement for the auditor to document: <ul style="list-style-type: none"> <li>○ Key elements of the auditor’s understanding, the sources of information from which the auditor’s understanding was</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The Project Team notes that the ISA for LCE already includes a documentation requirement related to the engagement team discussion in paragraph 5.5.2, and therefore the Project Team does not propose changes to the proposed ISA for LCE (Revised).</li> </ul>

Revisions to the ISAs	Project Team's Views and Recommendations for the Proposed ISA for LCE (Revised)
<p>obtained and the risk assessment procedures performed.</p> <ul style="list-style-type: none"> <li>○ Fraud or suspected fraud identified, the results of audit procedures performed, the significant professional judgments made, and the conclusions reached.</li> <li>• Added application material leveraging paragraphs 11 and A15 of ISA 230<sup>3</sup> dealing with the documentation of inconsistencies with the auditor's final conclusion regarding a significant matter.</li> </ul>	
<b>Narrow Scope Amendments Arising from the IESBA's Using the Work of an External Expert Project</b>	
41. The requirements and related application material in the IAASB standards may not be consistent with the revised IESBA Code regarding using the work of an external expert.	
<p><i>Paragraphs 8, 9A, A13A, A16A, A18A, A19A, A19B, A24 and Appendix of ISA 620<sup>4</sup></i></p> <ul style="list-style-type: none"> <li>• A sub-requirement added to paragraph 8 of ISA 620 for the auditor to consider whether relevant ethical requirements include provisions related to using the work of an expert in determining the nature, timing and extent of the procedures required in paragraphs 9–13 of ISA 620.</li> <li>• A new requirement added to paragraph 9A of ISA 620 to make the prohibition explicit that the auditor cannot use the work of an auditor's expert when the auditor concludes that the expert does not have the necessary competence, capabilities and objectivity.</li> </ul>	<p><i>Paragraphs 5.2.11. and 5.2.12A</i></p> <ul style="list-style-type: none"> <li>• The Project Team proposes aligning the list of matters to consider in paragraph 5.2.11 of the proposed ISA for LCE (Revised) with paragraph 8 of ISA 620, and therefore included a new sub-requirement related to relevant ethical requirements.</li> <li>• The Project Team proposes adding a new requirement in paragraph 5.2.12A based on paragraph 9A in ISA 620.</li> </ul>

<sup>3</sup> ISA 230, *Audit Documentation*

<sup>4</sup> ISA 620, *Using the Work of an Auditor's Expert*

Revisions to the ISAs	Project Team's Views and Recommendations for the Proposed ISA for LCE (Revised)
<ul style="list-style-type: none"><li>• Revisions or enhancements made to the application material and the appendix to maintain the interoperability of the IAASB standards with the new provisions in the IESBA Code related to using the work of an external expert.</li></ul>	