

Agenda Item

6-B.5

Maintenance of the ISA for LCE¹ – 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 8** 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 8, Concluding

Revisions to the ISAs	Project Team's Views and Recommendations for the Proposed ISA for LCE (Revised)
ISA 240 (Revised)²	
<p>7. The auditor's responses to the assessed risks of material misstatement due to fraud should be more robust.</p> <p>16. Analytical procedures – analytical procedures at the planning and completion stages of the audit are not robust enough to support the auditor's consideration of the risk of fraud and the planned audit response (nature, timing, extent of audit procedures).</p>	
<p><i>Paragraphs 53 and A154–A155</i></p> <ul style="list-style-type: none"> Enhanced requirements relating to analytical procedures at the planning and completion stages of the audit by changing the work effort verb from “evaluate” to “determine.” Enhanced or added application material that links to the guidance in ISA 520³ explaining that analytical procedures 	<p><i>Paragraph 8.3.1.</i></p> <ul style="list-style-type: none"> The Project Team notes that paragraph 53 of ISA 240 (Revised) is based on paragraph 35 of ISA 240,⁴ which was addressed by paragraph 8.3.1. The Project Team aligned paragraph 8.3.1. with paragraph 53 of ISA 240 (Revised).

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

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

³ ISA 520, *Analytical Procedures*

⁴ ISA 240, *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>performed near the end of the audit are intended to corroborate conclusions formed during the audit of individual components or elements of the financial statements.</p>	
<p>8. The auditor is inappropriately relying on written representations provided by management addressing fraud in the entity (i.e., clarity is needed that written representations do not relieve the auditor of the responsibility to appropriately respond to the assessed risks of material misstatement due to fraud).</p>	
<p><i>Paragraphs 63 and A193–A194</i></p> <ul style="list-style-type: none"> Enhanced the requirement by adding that the auditor shall obtain written representations from management and, where appropriate, TCWG, about whether they have appropriately fulfilled their responsibilities for the design, implementation and maintenance of internal control to prevent or detect fraud. 	<p><i>Paragraph 8.6.1.</i></p> <ul style="list-style-type: none"> The Project Team proposes to incorporate the changes that were made to the written representation requirement in ISA 240 (Revised) into paragraph 8.6.1. The Project Team notes that the written representation related to fraud slightly differs in the ISA for LCE given the typical nature and circumstances of an audit of an LCE. The Project Team proposes to continue with the current approach and not modify the requirement beyond the changes made in ISA 240 (Revised).
<p>17. Fraud is identified or suspected – lack of clarity around the auditor's response in such circumstances.</p>	
<p><i>Paragraph 58</i></p> <ul style="list-style-type: none"> Clarifies the auditor's responsibilities when the auditor determines that the financial statements are materially misstated due to fraud or the auditor is unable to obtain sufficient appropriate audit evidence to enable the auditor to conclude whether the financial statements are materially misstated as a result of fraud. 	<p><i>Paragraph 8.5.11.</i></p> <ul style="list-style-type: none"> The Project Team notes paragraph 58 of ISA 240 (Revised) is based on paragraph 38 of ISA 240 which was addressed by paragraph 8.5.11. Therefore, the Project Team proposes to align the wording of paragraph 8.5.11. with the updated requirement of ISA 240 (Revised).

Revisions to the ISAs	Project Team's Views and Recommendations for the Proposed ISA for LCE (Revised)
ISA 570 (Revised 2024)⁵	
<p>27. There was a call to consider requiring the auditor to assess the reasonableness of the period utilized by management in their going concern assessment.</p> <p>28. There are inconsistencies across financial reporting frameworks in the commencement of the twelve-month period for the going concern assessment. This has resulted in reconsideration of whether the twelve-month period over which the going concern assessment is made should commence on the date of approval of the financial statements (or the date of the auditor's report) instead of the date of the financial statements. Stakeholders also noted that in considering the period of assessment, the requirements of the applicable financial reporting framework need to be taken into account.</p>	
<p><i>Paragraphs 29 and A66</i></p> <ul style="list-style-type: none"> Enhanced requirements and stronger links to ISA 560⁶ if information becomes known after the date of the auditor's report but before the financial statements are issued. 	<p><i>Paragraph 8.4.4.</i></p> <ul style="list-style-type: none"> The Project Team notes that paragraph 29 of ISA 570 (Revised 2024) is based on an existing requirement from ISA 560. The Project Team is of the view that paragraph 8.4.4. of the ISA for LCE addresses the requirement from ISA 560 as well as the new requirement in ISA 570 (Revised 2024).

⁵ ISA 570 (Revised 2024), *Going Concern*

⁶ ISA 560, *Subsequent Events*

Revisions to the ISAs	Project Team's Views and Recommendations for the Proposed ISA for LCE (Revised)
<p>33. ISA 570 (Revised)⁷ does not reflect the more robust concepts in ISA 540 (Revised)⁸ when designing and performing audit procedures related to management's assessment of going concern. Embedding some of those concepts in ISA 570 (Revised) will assist the auditor by strengthening the audit procedures related to the evaluation of management's assessment of going concern, for example, in relation to the significant assumptions and data used in management's assessment of going concern.</p>	
<p><i>Paragraphs 39–40 and A97</i></p> <ul style="list-style-type: none"> • New and enhanced requirements to strengthen the written representation requirements from management, given the more robust approach in the standard to evaluate management's assessment in all instances. • New application material to provide an example of when additional representations may be considered by the auditor. 	<p><i>Paragraphs 8.6.1. and 8.6.2A</i></p> <ul style="list-style-type: none"> • ISA 570 (Revised 2024) introduces four written representations in paragraph 39. The Project Team proposes adding these new written representations to the existing list of written representations in paragraph 8.6.1. In addition, the Project Team grouped the going concern-related written representations and proposes to do the same for the written representations related to fraud and related parties. • In addition, the Project Team proposes a new requirement (paragraph 8.6.2A) to address the matters in paragraph 40 of ISA 570 (Revised 2024). The Project Team notes that the requirement is conditional to the existence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Given this conditionality, the Project Team located the requirement separately from the list in paragraph 8.6.1.
<p>34. The exercise of professional skepticism needs to be reinforced as it relates to the auditor's considerations about the appropriateness of management's use of the going concern basis of accounting, management's assessment of going concern, and maintaining professional skepticism when gathering audit evidence, questioning judgments made and assumptions used, and developing conclusions.</p>	
<p><i>Paragraphs 30 and A68–A71</i></p> <ul style="list-style-type: none"> • New requirements to evaluate whether the judgments and decisions made by management in making its assessment of 	<p><i>Paragraph 8.5.7.</i></p> <ul style="list-style-type: none"> • The Project Team noted paragraph 30 of ISA 570 (Revised 2024) is based on paragraph 17 of ISA 570 (Revised) which was already addressed by paragraph 8.5.7. Therefore, the Project Team

Revisions to the ISAs	Project Team's Views and Recommendations for the Proposed ISA for LCE (Revised)
<p>going concern, even if they are individually reasonable, are indicators of possible management bias.</p> <ul style="list-style-type: none"> New application material to emphasize the relevance of identifying indicators of possible management bias and the impact on the audit. 	<p>proposes changes to align paragraph 8.5.7. with paragraph 30 of ISA 570 (Revised 2024). In doing so, the Project Team noted that paragraph 30 (b) of ISA 570 (Revised 2024) is already addressed by paragraph 8.5.5 and therefore did not add the requirement to paragraph 8.5.7.</p>
<p>35. The communication with those charged with governance on going concern may not be sufficiently robust, including that such communication may not always occur on a timely basis throughout the audit.</p>	
<p><i>Paragraphs 41–42 and A98–A101</i></p> <ul style="list-style-type: none"> Strengthened communication requirements with TCWG to enhance transparency and timely, two-way, communication throughout the audit when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern. New application material in support of the proposed requirements and added emphasis for circumstances when it may be appropriate to consider whether a significant deficiency in internal control related to going concern should be communicated to TCWG. 	<p><i>Paragraph 8.8.3.</i></p> <ul style="list-style-type: none"> The Project Team proposes to combine paragraphs 41 and 42 of ISA 570 (Revised 2024) in revising paragraph 8.8.3. of the proposed ISA for LCE (Revised). The Project Team is of the view that both requirements discuss the situation where events or conditions are identified and therefore can be combined.

⁷ ISA 570 (Revised), *Going Concern*

⁸ ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

Revisions to the ISAs	Project Team's Views and Recommendations for the Proposed ISA for LCE (Revised)
<p>37. The auditor's report may not be sufficiently transparent with respect to the auditor's responsibilities and work related to going concern.</p> <p>38. There is confusion about the "Material Uncertainty Related to Going Concern" section in the auditor's report and its relationship with key audit matter (KAM) and emphasis of matter (EOM) paragraphs where there are going concern issues, including with respect to "close calls".</p>	
<p><i>Paragraphs 32–33, A73–A77</i></p> <ul style="list-style-type: none"> Clarified requirements regarding the adequacy of disclosures, including the requirement for the auditor to evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about events or conditions and the significant judgments made by management in concluding that there is no material uncertainty. 	<p><i>Paragraphs 8.5.8A, 8.5.9 and Essential Explanatory Material (EEM) under paragraphs 8.5.8A and 8.5.9</i></p> <ul style="list-style-type: none"> The Project Team proposes to reorder the two paragraphs discussing the adequacy of disclosures related to going concern to follow the same order as in ISA 570 (Revised 2024) and move paragraph 8.5.10 before paragraph 8.5.9. The Project Team noted paragraph 32 of ISA 570 (Revised 2024) is based on paragraph 20 of ISA 570 (Revised) which was already addressed by paragraph 8.5.8A. Therefore, the Project Team proposes changes to align paragraph 8.5.8A with paragraph 32 of ISA 570 (Revised 2024). The Project Team noted that paragraph 33 of ISA 570 (Revised 2024) is based on paragraph 19 of ISA 570 (Revised) which was addressed by paragraph 8.5.9 and therefore the Project Team proposes to align the requirement of 8.5.9 with paragraph 33 of ISA 570 (Revised 2024). In doing so the Project Team noted that: <ul style="list-style-type: none"> The hanging paragraph in paragraph 8.5.9 is not aligned with the hanging paragraph in paragraph 33 of ISA 570 (Revised 2024). However, the Project Team is of the view that it is still useful and therefore proposes adding a footnote to refer to Part 9 for the effect on the auditor's report as this is how the relevant references are addressed elsewhere in the proposed ISA for LCE (Revised). Given

Revisions to the ISAs	Project Team's Views and Recommendations for the Proposed ISA for LCE (Revised)
	<p>that there are different reporting requirements for when a material uncertainty is adequately disclosed versus not adequately disclosed, two references to Part 9 are included.</p> <ul style="list-style-type: none"> ○ The Project Team noted that the hanging paragraph in paragraph 33 of ISA 570 (Revised 2024) is based on the last part of paragraph 18 in ISA 570 (Revised) which was addressed in EEM under paragraph 7.4.4 (first paragraph). Therefore, the Project Team proposes to move the EEM to under paragraph 8.5.9, so the flow aligns with ISA 570 (Revised 2024). • The Project Team is of view that the explanation related to significant judgment made by management is essential to understand the requirement related to material uncertainty. Therefore, the Project Team proposes adding EEM under paragraph 8.5.8A based on paragraph A75 of ISA 570 (Revised 2024).

Changes Not Directly Linked to Public Interest Issues

Paragraph 8.5.1

- The Project Team notes that paragraph 54 of ISA 240 (Revised) is a new requirement based on paragraph 25 and 26 of ISA 330.⁹ The paragraphs in ISA 330 are addressed in the proposed ISA for LCE (Revised) by paragraphs 8.5.1 and 8.5.5. The Project Team proposes to add “due to fraud or error” in paragraph 8.5.1 to clarify that the evaluation of risks of material misstatement relates to fraud and error.

Paragraphs 8.5.8 and EEM under paragraph 8.5.8

- The Project Team noted paragraph 31 of ISA 570 (Revised 2024) is based on paragraph 18 of ISA 570 (Revised) which was addressed by paragraph 8.5.8. Therefore, the Project Team proposes changes to align paragraph 8.5.8 with paragraph 31 of ISA 570 (Revised 2024).
- The Project Team is of the view that paragraphs A6 and A72 are essential to understand the requirement to conclude whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. Therefore, the Project Team proposes adding EEM under paragraph 8.5.8 (first and second paragraphs) based on paragraphs A6 and A72 of ISA 570 (Revised 2024).

Paragraph 8.9.1(c)

- The Project Team noted paragraph 44(b) of ISA 570 (Revised 2024) is a documentation requirement related to the auditor’s determination of the adequacy of management’s disclosures in the financial statements and therefore proposes adding the requirement to paragraph 8.9.1(c). For paragraph 44(a) of ISA 570 (Revised 2024), see **Agenda Item 6-B.4**.

⁹ ISA 330, *The Auditor’s Responses to Assessed Risks*