

Agenda Item

6-B.6

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 9** 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 9, *Forming an Opinion and Reporting*

Revisions to the ISAs	Project Team's Views and Recommendations for the Proposed ISA for LCE (Revised)
ISA 240 (Revised)²	
25. The auditor's report may not be transparent enough about the auditor's fraud-related responsibilities and procedures.	
<p><i>Paragraphs 60–62 and A177-192</i></p> <ul style="list-style-type: none"> Added requirements and application material that expand on ISA 701³ and strengthen the requirements for the auditor to report KAMs related to fraud, including requirements for the auditor to: <ul style="list-style-type: none"> Determine, from the matters related to fraud communicated with TCWG, those matters that required significant auditor attention in performing the audit. 	<p><i>Not Addressed in the Proposed ISA for LCE (Revised)</i></p> <ul style="list-style-type: none"> The ISA for LCE does not include any requirements addressing procedures or matters typically relevant to listed entities. Therefore, the Project Team did not make any changes to the proposed ISA for LCE (Revised) for these revisions to ISA 240.⁴

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 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

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)
<ul style="list-style-type: none"> ○ Determine, from the matters which required significant auditor attention in performing the audit, which of the matters were of most significance in the audit of the financial statements of the current period and therefore are KAMs. • The application material steers the auditor to communicate fraud related matters as a KAM by clarifying that: <ul style="list-style-type: none"> ○ Matters related to fraud are often matters that require significant auditor attention; and ○ As users of financial statements have highlighted their interest in matters related to fraud, these matters are ordinarily of most significance in the audit of the financial statements of the current period and therefore are KAMs. 	
ISA 570 (Revised 2024)⁵	
<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 34, A78–A96 and Appendix</i></p> <ul style="list-style-type: none"> • Provide explicit statements about going concern in a separate section of the auditor's report when the basis of accounting is appropriate, and no material uncertainty exists. • When significant judgments are made by management in concluding that no material uncertainty exists or when a 	<p><i>Illustrative Auditor's Report in Part 9.4.</i></p> <ul style="list-style-type: none"> • See Agenda Item 6, paragraph 56 for details. • The Project Team noted that paragraph 34(b) of ISA 570 (Revised 2024) only applies to listed entities in a "close call" situation (i.e., when events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern but

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

Revisions to the ISAs	Project Team's Views and Recommendations for the Proposed ISA for LCE (Revised)
<p>Material Uncertainty Related to Going Concern section is provided, describing in the auditor's report of a listed entity how the auditor evaluated management's assessment of going concern.</p> <ul style="list-style-type: none"> • New application material, leveraging ISA 701, to support consistent application of the proposed auditor reporting requirements. • Guidance regarding the amount of detail to be provided in the auditor's report to describe how the auditor evaluated management's assessment. 	<p>management still concludes that no material uncertainty exists) but paragraph A82 explains that the standard does not prohibit paragraph 34(b) from being applied to entities other than listed entities. The Project Team is of the view that the clarity provided by paragraph A82 is important when it is appropriate to enhance transparency in the auditor's report for an audit of an LCE. Therefore, the Project Team proposes not adding changes based on paragraph 34(b) to the specified content and format for an unmodified auditor's report in paragraph 9.4.1 (herein referred to as illustrative auditor's report) and adding a footnote based on paragraph A82.</p>
<p><i>Paragraph 35</i></p> <ul style="list-style-type: none"> • Strengthen the requirement to include additional statement in the auditor's report. 	<p><i>Paragraph 9.6.6.</i></p> <ul style="list-style-type: none"> • The Project Team noted that paragraph 35 of ISA 570 (Revised 2024) is based on paragraph 22 of ISA 570 (Revised)⁶ which was addressed in paragraph 9.6.6. in the ISA for LCE. Therefore, the Project Team proposes changing paragraph 9.6.6 to align with paragraph 35 of ISA 570 (Revised 2024). • The Project Team noted that paragraph 35(b) of ISA 570 (Revised 2024) only applies to listed entities and therefore excluded this requirement from the revisions to the proposed ISA for LCE (Revised).

⁶ ISA 570 (Revised), *Going Concern*

Revisions to the ISAs	Project Team's Views and Recommendations for the Proposed ISA for LCE (Revised)
<p><i>Paragraph 36</i></p> <ul style="list-style-type: none"> Strengthen the requirement to include additional statement in the auditor's report. 	<p><i>Paragraph 9.5.19.</i></p> <ul style="list-style-type: none"> The Project Team noted that paragraph 36 of ISA 570 (Revised 2024) is based on paragraph 23 of ISA 570 (Revised) which was addressed in paragraph 9.5.19 of the ISA for LCE. Therefore, the Project Team proposes changing paragraph 9.5.19 to align with paragraph 36 of ISA 570 (Revised 2024). The Project Team proposes some changes in the structure of the paragraph (e.g., removing bullets and sub bullets) given the placement of the requirement in a table.
<p><i>Paragraph 37</i></p> <ul style="list-style-type: none"> Added a requirement that the auditor should not include a separate section on Going Concern or Material Uncertainty Related to Going Concern in the auditor's report when the auditor disclaims an opinion on the financial statements. 	<p><i>Paragraph 9.5.20A.</i></p> <ul style="list-style-type: none"> The Project Team is of the view that it is important not to overshadow the disclaimer of an opinion on the financial statements as a whole with a separate section on Going Concern or Material Uncertainty Related to Going Concern in the auditor's report. Therefore, the Project Team proposes to revise Table C of Part 9 of the proposed ISA for LCE (Revised) to include this specific requirement in paragraph 9.5.20A.
<p><i>Paragraph 38</i></p> <ul style="list-style-type: none"> Added a requirement that the auditor should not include a separate section on Going Concern or Material Uncertainty Related to Going Concern in the auditor's report when the auditor express an adverse opinion, unless required by law or regulation. 	<p><i>Paragraph 9.5.17A</i></p> <ul style="list-style-type: none"> The Project Team noted that paragraph 38 of ISA 570 (Revised 2024) is based on paragraph 21 of ISA 570 (Revised) which was addressed by paragraph 9.5.17 in the ISA for LCE. The Project Team is of the view that: <ul style="list-style-type: none"> Paragraph 38(a) of ISA 570 (Revised 2024) is addressed by paragraph 9.5.17.

Revisions to the ISAs	Project Team's Views and Recommendations for the Proposed ISA for LCE (Revised)
	<ul style="list-style-type: none"> It is important not to overshadow the adverse opinion on the financial statements as a whole with a separate section on Going Concern or Material Uncertainty Related to Going Concern in the auditor's report. Therefore, the Project Team proposes addressing paragraph 38(b) of ISA 570 (Revised 2024) by adding paragraph 9.5.17A in the proposed ISA for LCE (Revised).

Changes not Directly Linked to Public Interest Issues (PII)
<p><i>Illustrative Auditor's Report in Part 9.4.</i></p> <ul style="list-style-type: none"> The Project Team noted that enhancements were made to the description of the auditor's responsibilities relating to fraud in the auditor's report based on the conforming amendments to ISA 700 (Revised).⁷ The Project Team is of the view that the enhancements made to the description of the auditor's responsibilities relating to fraud in the auditor's report are also relevant to the proposed ISA for LCE (Revised). Therefore, the Project Team proposes revisions to the illustrative auditor's report in paragraph 9.4.1 to align with the changes made in ISA 700 (Revised).
<p><i>Paragraph. 9.5.5</i></p> <ul style="list-style-type: none"> The Project Team noted that a conforming or consequential amendment was made to paragraph 19(d) of ISA 705 (Revised).⁸ Paragraph 9.5.5 of the proposed ISA for LCE (Revised) is based on paragraph 19 of ISA 705 (Revised) and therefore the Project Team proposes to make changes to paragraph 9.5.5 of the proposed ISA for LCE (Revised) to align with paragraph 19 of ISA 705 (Revised).

⁷ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

⁸ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

Changes not Directly Linked to Public Interest Issues (PII)

Essential Explanatory Material (EEM) under paragraph 9.6.1

- The Project Team noted that a conforming or consequential amendment was made to paragraph A7(c) of ISA 706 (Revised).⁹ EEM under paragraph 9.6.1 (third bullet of second paragraph) of the proposed ISA for LCE (Revised) is based on paragraph A7(c) of ISA 706 (Revised) and therefore the Project Team proposes to make changes to this bullet to align with paragraph A7(c) of ISA 706 (Revised). In doing so, the Project Team added a reference to footnote in paragraph 9.4.1, to explain that an Emphasis of Matter paragraph is not a substitute for reporting when a material uncertainty exists or there is a close call situation and the auditor decided to provide information (See PII 37 and 38, second bullet under “Illustrative Auditor’s Report in Part 9.4” for details.). The Project Team is of the view that this addresses the alignment as the wording from paragraph A7(c) of ISA 706 (Revised) does not work for the proposed ISA for LCE (Revised).

⁹ ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report*