

### Maintenance of the ISA for LCE<sup>1</sup> – Issues Paper

#### Objective

The objective of this session is to obtain the Board's direction on:

- The Project Team's views and recommendations as set out in **Agenda Items 6, 6-A and 6-B.1–6-B.7**; and
- The proposed drafting for revisions to the ISA for LCE (herein referred to as proposed ISA for LCE (Revised)) as set out in **Agenda Item 6-C**.

#### Approach to the Board Discussion

The Project Team will walk through **Section II** of this Agenda Item taking comments on the Project Team's views and recommendations, the related proposed ISA for LCE (Revised) and specific questions identified.

#### Introduction

1. In December 2025, the Board approved the [project proposal](#) for the maintenance project of the ISA for LCE. The objective of the maintenance project is to update the ISA for LCE for the revisions resulting from the following ISA<sup>2</sup> projects (also referred to as the underlying ISA projects or underlying ISAs), as contemplated in the [Approach for Maintaining the ISA for LCE](#):
  - [Fraud – ISA 240 \(Revised\)](#);<sup>3</sup>
  - [Going Concern – ISA 570 \(Revised 2024\)](#);<sup>4</sup>
  - [Listed Entity and Public Interest Entity \(Narrow-Scope Amendments\)](#); and
  - [Experts \(Narrow-Scope Amendments\)](#).
2. In the December 2025 meeting, the Board supported the Project Team's proposed revisions to the following parts and appendices of the ISA for LCE:<sup>5</sup>
  - (a) Part A, *Authority of the ISA for LCE*;
  - (b) Part 1, *Fundamental Concepts, General Principles and Overarching Requirements*;
  - (c) Part 2, *Audit Evidence and Documentation*;
  - (d) Part 3, *Engagement Quality Management*;
  - (e) Part 4, *Acceptance or Continuance of an Audit Engagement and Initial Audit Engagements*; and

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

<sup>2</sup> International Standards on Auditing

<sup>3</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

<sup>4</sup> ISA 570 (Revised 2024), *Going Concern*

<sup>5</sup> Refer to Agenda Items 12–12C of the [December 2025 Board meeting](#).

- (f) Appendix 1, *Glossary of Terms*.
3. In addition, the Board supported the proposed structure of agenda items for the Project Team to use in presenting proposals to the Board during the course of this maintenance project. The Board agreed that the structure of agenda items facilitate clear and complete information to inform the Board's discussions and decision making on proposed ISA for LCE (Revised).
4. For this meeting, the Project Team has focused on proposed revisions to the appendices and the following parts of the ISA for LCE:
- (a) Part 5, *Planning*;
  - (b) Part 6, *Risk Identification and Assessment*;
  - (c) Part 7, *Responding to Assessed Risks of Material Misstatement*;
  - (d) Part 8, *Concluding*;
  - (e) Part 9, *Forming an Opinion and Reporting*;
  - (f) Part 10, *Audits of Group Financial Statements*.

In addition, further changes were made to Part 1.

#### Materials Presented

5. This paper sets out the following:
- **Section I:** Project Team's approach when analyzing issues;
  - **Section II:** Proposed revisions to the ISA for LCE; and
  - **Section III:** Way forward.

**Section II** includes Project Team's view and recommendations for overarching matters. The Project Team's view and recommendations related to other matters are explained in **Agenda Item 6-B.1–6-B.7**.

6. This agenda item includes the following appendix and other agenda items:

<i>Appendix</i>	
<b>Appendix</b>	Overview of the Project Team
<i>Agenda Items</i>	
<b>Agenda Item 6-A</b>	Analysis of the Public Interest Issues
<b>Agenda Item 6-B.1</b>	Drafting Rationale Part 1
<b>Agenda Item 6-B.2</b>	Drafting Rationale Part 5
<b>Agenda Item 6-B.3</b>	Drafting Rationale Part 6
<b>Agenda Item 6-B.4</b>	Drafting Rationale Part 7

<b>Agenda Item 6-B.5</b>	Drafting Rationale Part 8
<b>Agenda Item 6-B.6</b>	Drafting Rationale Part 9
<b>Agenda Item 6-B.7</b>	Drafting Rationale Part 10 and Appendices
<b>Agenda Item 6-C</b>	Proposed Revisions to the ISA for LCE (Marked from <b>Agenda Item 12-C</b> of <a href="#">December 2025 Board meeting</a> )
<b>Agenda Item 6-D</b>	(Supplemental) Full Standard Including Proposed Revisions (Marked from <b>Agenda Item 12-C</b> of <a href="#">December 2025 Board meeting</a> )

### Coordination Activities

7. In February 2026, the March 2026 Board meeting papers were shared with the International Ethics Standards Board's (IESBA) staff for feedback. The feedback will be considered together with the feedback obtained in the March 2026 Board meeting and shared with the IAASB in the June 2025 Board meeting.
8. In developing proposed ISA for LCE (Revised), the Project Team met with staff involved in the underlying ISA projects to obtain a better understanding of the revisions made in each of the projects. The Project Team also met with the Chair of the Going Concern Task Force seeking views on the key changes the Project Team proposes related to going concern.

## Section I: Project Team's Approach when Analyzing Issues

### Structure of the Agenda Items

9. The Project Team followed the same steps for the structure of the agenda items as in December 2025.

#### *Step 1: Consider the Relevance of the Public Interest Issues*

10. The Project Team reviewed the public interest issues not reviewed in December 2025 and considered whether these issues are relevant in the context of an audit of an LCE (see **Agenda Item 6-A** for the results).

#### *Step 2: Develop a Proportionate Solution to Address the Relevant Issues*

11. After identifying the relevant public interest issues to be addressed by the proposed ISA for LCE (Revised), the Project Team:
  - (a) Analyzed how the relevant public interest issues were addressed in the development of the underlying ISAs; and
  - (b) Applied the ISA for LCE's design principles to the proposed solutions developed in the underlying ISAs.
12. The ISA for LCE presents the requirements for an audit of an LCE based on the core requirements of the ISAs but drafted and presented in a more straightforward way. Therefore, when incorporating the revisions to the requirements of ISAs in the proposed ISA for LCE (Revised), the Project Team's intent is to incorporate in the proposed ISA for LCE (Revised) in a proportionate way, all requirements

of the underlying ISAs, other than those requirements determined not to be relevant to the typical nature and circumstances of an audit of an LCE. The Project Team explains the rationale in **Agenda Item 6-B.1–6-B.7** especially when a requirement(s) is not addressed in the proposed ISA for LCE (Revised).

13. The Essential Explanatory Material (EEM) serves a similar purpose to application and other explanatory material in the ISAs but is more limited than what is presented within the ISAs. The EEM is targeted at a higher level (i.e., a conceptual and contextual level), taking into account the typical nature and circumstances of audits for which the standard has been designed. Therefore, when incorporating the revisions made to the application and other explanatory material of the underlying ISAs, the Project Team's intent is to identify matters that are essential to understanding or applying a requirement(s). The Project Team explains the rationale in **Agenda Item 6-B.1–6-B.7** when application and other explanatory material is included in the proposed ISA for LCE (Revised).

### Changes Not Directly Linked to Public Interest Issues

14. The Project Team noted that not all of the paragraphs in the underlying ISAs are directly linked to public interest issues. The Project Team did consider the changes to these paragraphs and explained the Project Team's views and recommendations for the proposed ISA for LCE (Revised) in a separate table with the title "Changes Not Directly Linked to Public Interest Issues" in **Agenda Item 6-B.1–6-B.7**. In addition, the Project Team also proposes other changes that are not directly linked to the revisions to the ISAs (e.g., moving a paragraph to another part). Those changes are also explained in this table.

## Section II: Proposed Revisions to the ISA for LCE

15. As the underlying ISA projects, especially the revisions to ISA 240<sup>6</sup> and ISA 570 (Revised),<sup>7</sup> significantly enhanced and clarified the IAASB's fraud and going concern standards, the Project Team also proposes more significant changes to the ISA for LCE to make sure the proposed ISA for LCE (Revised) remains aligned with the core requirements and concepts of the ISAs, in a proportionate way.

### Technology

16. The Project Team noted that ISA 240 (Revised) and ISA 570 (Revised 2024) include guidance to address public interest issues related to technology identified in the relevant project proposals. The Project Team analyzed how technology was addressed in the underlying ISAs and reflected on how technology can be best addressed in the proposed ISA for LCE (Revised).
17. The Project Team is of the view that the examples of Automated Tools and Techniques (ATT) used when testing significant assumptions or data in paragraphs A42 and A46 of ISA 570 (Revised 2024) provide essential guidance since it guides how ATT could be incorporated when testing management's assessment of going concern. Therefore, the Project Team proposes addressing paragraphs A42 and A46 of ISA 570 (Revised 2024) in EEM under paragraph 7.4.17 (second paragraph). To align with the requirement in paragraph 7.4.17, the Project Team proposes not to make the EEM specific to going concern so it can be applied to accounting estimates more broadly.

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<sup>6</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

<sup>7</sup> ISA 570 (Revised), *Going Concern*

18. The Project Team is also of the view that the examples of how ATT may be used to determine previously unrecognized risks of material misstatement (ROMM) due to fraud in paragraph A155 of ISA 240 (Revised) provides essential guidance since it guides how ATT may be used when performing analytical procedures near the end of the audit in forming an overall conclusion. Therefore, the Project Team proposes addressing paragraph A155 of ISA 240 (Revised) in EEM under paragraph 8.3.1.

**Part 1: Fundamental Concepts, General Principles and Overarching Requirements, and Part 5: Planning**

19. For Part 1 see **Agenda Item 6-A, Agenda Item 6-B.1 and Agenda Item 6-C.**
20. For Part 5 see **Agenda Item 6-A, Agenda Item 6-B.2 and Agenda Item 6-C.**

**Matters for IAASB Consideration:**

1. The Board is asked for their views on whether the proposed ISA for LCE (Revised) is appropriate to address the public interest issues related to technology.
2. The Board is asked for their views on the drafting related to Part 1 and Part 5 as presented in **Agenda Item 6-C**, informed by the steps applied as set out in **Agenda Items 6-A and 6-B.1 and 6-B.2.**

**Part 6: Risk Identification and Assessment**

*Background*

21. Proportionality is addressed throughout the ISA for LCE but in particular in Part 6. Part 6 addresses proportionality considering that an LCE's system of internal control is generally straightforward and less formalized than in larger and more complex entities.
22. During the development of the ISA for LCE, in making Part 6 more proportionate to the typical nature and circumstances of an audit of an LCE, the IAASB made several changes to the ISA requirements that Part 6 is based on. These changes are relatively more significant than the changes made to other parts. Therefore, Part 6 looks and flows differently compared to the related ISAs but still results in appropriate outcomes relating to obtaining an understanding and identifying and assessing the ROMMs as a basis to design and perform audit procedures responsive to assessed risks.
23. In Part 6, proportionality is addressed as follows:
- In obtaining an understanding of the entity's system of internal control, the following changes were made when the ISA for LCE was developed:
    - Instead of obtaining an understanding of and evaluating the entity's risk assessment process and the entity's process for monitoring the internal control system, the ISA for LCE requires the auditor to inquire about these matters (see paragraph 6.3.1. (a) and (c) in **Agenda Item 6-C**). This is because inquiry was deemed sufficient and proportionate to a typical LCE and would appropriately drive the overall consideration of ROMMs and control deficiencies.

- The detailed list of matters to be understood in ISA 315 (Revised 2019),<sup>8</sup> paragraph 21 about the control environment is presented as EEM under paragraph 6.3.7 (first paragraph) in the ISA for LCE as not all matters included in ISA 315 (Revised 2019) are relevant for a typical LCE.
- The requirement related to the entity's information system and communication in ISA 315 (Revised 2019), paragraph 25 has been adapted to be more direct in the ISA for LCE and focus on the entity's process to prepare its financial statements (paragraphs 6.3.8 and 6.3.10).
- In identifying and assessing ROMMs, the separate requirements in ISA 315 (Revised 2019), paragraphs 28–31 relating to the identification and assessment of ROMMs, and determining the relevant assertions and the related significant classes of transactions, account balances and disclosures are combined into a single requirement in paragraph 6.4.1 of the ISA for LCE, given that these matters are typically addressed in a more straightforward manner and at the same time in an audit of an LCE.

#### ISA 240 (Revised) and ISA 570 (Revised 2024)

24. In both the revision of ISA 240 and 570 (Revised), an important public interest issue was to reflect the more robust risk identification and assessment process in ISA 315 (Revised 2019). In doing so, ISA 570 (Revised 2024) focuses on the timely identification of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (events or conditions), including the auditor having an appropriate basis for determining whether events or conditions have been identified. ISA 240 (Revised) focusses on obtaining audit evidence for the identification and assessment of ROMMs due to fraud at the financial statement and assertion levels taking into account fraud risk factors.
25. In addition, the linkages between ISA 315 (Revised 2019), and ISA 240 (Revised) and ISA 570 (Revised 2024) were enhanced. In both standards, this was done by:
  - (a) Adding new and enhanced requirements that are based on ISA 315 (Revised 2019). As set out in the CUSP Drafting Principles and Guidelines, the linkage to ISA 315 (Revised 2019) is highlighted by using the phrase “in applying ISA ...” and adding in the related footnote a reference to the relevant requirement in the other ISA.
  - (b) Restructuring extant ISA 240 and extant ISA 570 (Revised) to follow a similar structure as ISA 315 (Revised 2019).

#### *Revising the ISA for LCE*

##### Fraud Risk Factors and Events or Conditions

26. In revising the ISA for LCE, the Project Team wanted to stay true with the design principles of the ISA for LCE while also addressing the public interest issues related to fraud and going concern. In doing so, the project team closely looked where in Part 6 more emphasis could be added to the identification of:
  - (a) Fraud risk factors; and

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<sup>8</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

- (b) Events or conditions.

27. The Project Team's views are set out below:

- (a) *ROMMs arising from fraud risk factors and from events or conditions.* Paragraph 6.2.4 of the extant ISA for LCE requires the auditor, in designing and performing procedures to identify and assess ROMMs, to consider possible ROMMs arising from certain matters, including fraud (see paragraph 6.2.4(a)) and events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (see paragraph 6.2.4(c)). The Project Team proposes changing the requirement to align with the changes made to ISA 240 and ISA 570 (Revised). The Project Team aligned the work effort verb from "consider" to "determine" for events or conditions (see paragraph 6.2.4(c)) (it remains "consider" for fraud risk factors and related parties which is aligned with the ISAs). The Project Team also proposes to focus paragraph 6.2.4(a) on fraud risk factors and not fraud or error. Instead, the ROMMs due to fraud or error are addressed in the lead in.

In addition, the EEM under paragraph 6.2.4 (second and fourth section) is enhanced by explaining what fraud risk factors are and by adding guidance that was deemed to be essential for the auditor to apply the requirement as it relates to events or conditions.

- (b) *Identify fraud risk factors and events or conditions.* Part 6.3 addresses the auditor's understanding of relevant aspects of the entity. This section is the equivalent of the section on obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal control in ISA 315 (Revised 2019). In the EEM to this section (under the main header), the Project Team added guidance that explains that understanding relevant aspects of the entity assists the auditor in identifying fraud risk factors and events or conditions. The Project Team is of the view that being aware of possible fraud risks factors or events or conditions is critical when obtaining an understanding of the entity and that this aligns with the conceptual ideas in ISA 240 (Revised) and ISA 570 (Revised 2024).
- (c) *Evaluate whether fraud risk factors are present.* The Project Team moved part of paragraph 1.5.1 (a) to paragraph 6.3.15 to follow the flow of ISA 240 (Revised) and because it was of the view that the flow in ISA 240 (Revised) is more intuitive – the auditor obtains audit evidence from procedures to identify and assess risks (and related activities) and then the auditor evaluates whether, based on that audit evidence, there are fraud risk factors. EEM was added based on paragraph A110 of ISA 240 (Revised) to clarify that it is a matter of professional judgement whether fraud risk factors individually or in combination, indicate that there is a ROMM.
- (d) *Evaluate whether events or conditions are present.* Similar to the evaluation of fraud risk factors as described above, the Project Team was of the view that such an evaluation is useful for events or conditions. Therefore, the Project Team added going concern lens to paragraph 6.4.8 by adding EEM under paragraph 6.4.8 that the auditor's evaluation may indicate the existence of events or conditions that management has not previously identified or disclosed to the auditor.
- (e) *Identifying and Assessing ROMMs due to Fraud.* Paragraph 6.4.1 requires the auditor to identify and assess the ROMMs, due to fraud or error. The Project Team added a reference to fraud risk factors to align with paragraph 39 of ISA 240 (Revised). In addition, the Project Team

added EEM (third section) to this requirement highlighting matters the auditor may consider in determining whether fraud risk factors, individually or in combination, indicate that there are ROMMs due to fraud. This EEM closes the loop from being alert to possible fraud risk factors, to determining how they impact ROMMs due to fraud.

#### Presumption of the ROMMs Due to Fraud in Revenue Recognition

28. One of the most prominent areas where respondents to the Exposure Draft ([July 2021](#)) of the ISA for LCE questioned whether the requirements were appropriately proportionate to the typical nature and circumstances of an audit of an LCE, was the presumption that there are risks of fraud in revenue recognition.
29. In response, the Board considered making changes in the ISA for LCE to the presumption that there are risks of fraud in revenue recognition and to revise the requirement to instead require an active determination of potential fraud risks resulting from types of revenue, revenue transactions or assertions. However, the IAASB noted that the change would be inconsistent with ISA 240 and the direction of the IAASB in its project to revise ISA 240. Therefore, it was decided not to depart from the base requirement in ISA 240 and to retain the presumption.
30. The Project Team considered the comments from respondents to the Exposure Draft of the ISA for LCE and previous Board discussions about the ISA for LCE and decided to:
  - (a) Align the requirement in paragraph 6.4.2 to the equivalent requirement in ISA 240 (Revised) (paragraph 41). This includes changing the work effort verb from “evaluate” to “determine” and requiring the auditor to take into account related fraud risk factors when determining which types of revenue, revenue transactions or relevant assertions give rise to a ROMM due to fraud.
  - (b) Not include the guidance in ISA 240 (Revised) that makes it harder for the auditor to rebut the presumption of the ROMM due to fraud in revenue recognition (paragraph A122 of ISA 240 (Revised) states that the significance of fraud risk factors related to revenue recognition, individually or in combination, ordinarily makes it inappropriate for the auditor to rebut the presumption that there are ROMMs due to fraud in revenue recognition). The Project Team was of the view that adding this guidance would not be proportionate to the typical nature and circumstances of an audit of an LCE.
  - (c) To enhance the proportionality of the requirement, the Project Team added guidance from paragraph A123 in ISA 240 (Revised) that clarifies that there are limited circumstances where it may be appropriate to rebut the presumption that there are ROMMs due to fraud in revenue recognition. See EEM under paragraph 6.4.2 (second paragraph).

#### Linkages

31. As noted in paragraph 25, the linkages between ISA 315 (Revised 2019), and ISA 240 (Revised) and ISA 570 (Revised 2024) were enhanced. However, given that the ISA for LCE is designed to follow the flow of an audit and incorporates all relevant stages or elements of an audit within this flow, the Project Team is of the view that such linkage is not needed in the proposed ISA for LCE (Revised). For more information about how this is dealt with for individual paragraphs, see **Agenda Item 6-B.3**.



*Other Changes*

32. For other changes to Part 6, see **Agenda Item 6-A**, **Agenda Item 6-B.3** and **Agenda Item 6-C**.

**Matters for IAASB Consideration:**

3. The Board is asked for their views on the Project Team's proposals on how to address in the proposed ISA for LCE (Revised):
  - (a) Fraud risk factors and events or conditions; and
  - (b) The presumption that there are ROMMs due to fraud in revenue recognition.
4. The Board is asked for their views on the drafting presented in Part 6 as presented in **Agenda Item 6-C**, informed by the steps applied as set out in **Agenda Items 6-A** and **6-B.3**.

**Part 7: Responding to Assessed Risks of Material Misstatement**

*Fraud or Suspected Fraud in ISA 240 (Revised)*

33. To enhance clarity around the auditor's response when fraud or suspected fraud is identified in the audit, ISA 240 (Revised) introduced:
- (a) A separate section, Fraud or Suspected Fraud, that groups the requirements that are applicable when fraud or suspected fraud is identified during an audit.
  - (b) A threshold that allows the auditor to exclude from further consideration those instances of fraud or suspected fraud that are clearly inconsequential, provided the auditor has first obtained a sufficient understanding of the matters, as required by paragraph 55 of ISA 240 (Revised).

*Revising the ISA for LCE in Relation to Fraud or Suspected Fraud*

34. In the ISA for LCE, fraud or suspected fraud is dealt with in Part 1. This part includes requirements for the auditor to:
- (a) Respond appropriately to fraud or suspected fraud identified during the audit (see paragraph 1.5.1(c));
  - (b) Determine the legal and professional responsibilities or consider whether it is appropriate to withdraw, where withdrawal is possible under law or regulation as a result of a misstatement due to fraud or suspected fraud (see paragraph 1.5.2);
  - (c) Communicate with management and those charged with governance about fraud or suspected fraud (see paragraphs 1.8.7., 1.8.8. and 1.8.9.); and
  - (d) Document communications with management, those charged with governance, regulators and others (see paragraph 1.9.1).
35. In addition, one of the auditor's objectives in Part 7 is to respond appropriately to ROMMs arising from fraud or suspected fraud and the part sets out requirements for the design and implementation of responses to assessed ROMMs at the financial statement and assertion level. This part also sets out requirements for specific procedures on various topics within an audit, in Part 7.4 – *Specific Focus Areas*.

### Separate Section on Fraud or Suspected Fraud

36. Given the importance of the changes to ISA 240 (Revised) regarding fraud or suspected fraud, the Project Team proposes to mirror ISA 240 (Revised) by having a separate section that contains requirements when fraud or suspected fraud is identified. The Project Team is of the view that this separate section is best placed in Part 7 as Part 1 deals with fundamental concepts, general principles and overarching requirements and specific procedures to address fraud or suspected fraud does not naturally fit in there. Therefore, the Project Team proposes adding the fraud or suspected section in Part 7.4 (*Specific Focus Areas*) as this section sets out requirements for specific procedures on various topics within an audit. The Project Team proposes to add this section after the section on “Audit Procedures When Non-Compliance with Law or Regulation is Identified or Suspected”. This way, the section on fraud or suspected fraud is close to similar requirements related to non-compliance with laws and regulations.

### Requirements

37. The Project Team assessed which of the requirements from ISA 240 (Revised) needed to be brought in as it relates to fraud or suspected fraud and how they could be tailored to the nature and circumstances of an audit of an LCE.
38. The Project Team noted that paragraph 55 of ISA 240 (Revised) requires the auditor to obtain an understanding of fraud or suspected fraud, and paragraph 56 of ISA 240 (Revised) requires the engagement partner to make determinations about the effect of the fraud or suspected fraud on the audit based on the understanding from paragraph 55. Scalability is introduced in paragraph 56 of ISA 240 (Revised) by a threshold that allows the auditor to exclude from further considerations those instances of fraud or suspected fraud that are clearly inconsequential.
39. The Project Team is of the view that these requirements in ISA 240 (Revised) should also be included in the proposed ISA for LCE (Revised) (see paragraphs 7.4.27A and 7.4.27B) to bring clarity around the auditor’s response related to fraud or suspected fraud. In doing so, the Project Team:
- (a) Simplified paragraph 7.4.27A by merging (b) and (c) in paragraph 55 of ISA 240 (Revised) into one bullet point.
  - (b) Adapted paragraph 56 of ISA 240 (Revised) to the structure of proposed ISA for LCE (Revised) by removing the references to ISAs in paragraph 7.4.27B.
  - (c) Similar to ISA 240 (Revised), introduced scalability by having the “clearly inconsequential” threshold.
40. The Project Team noted that paragraph 57 of ISA 240 (Revised) is based on paragraphs 36 and 37 of ISA 240 which were addressed by paragraphs 7.5.4 and 7.5.5 in the ISA for LCE. Therefore, the Project Team proposes changes to align paragraphs 7.5.4 and 7.5.5 with paragraph 57 of ISA 240 (Revised). In doing so, the Project Team proposes removing paragraph 7.5.4 to address paragraph 57 of ISA 240 (Revised) in one paragraph and streamlining the paragraph.
41. Paragraph 58 of ISA 240 (Revised) is addressed in Part 8. See **Agenda Item 6-B.5** for further details.

### Communication and Documentation Requirements

42. Given the introduction of the Fraud or Suspected Fraud section, the Project Team proposes moving the specific communication requirements and specific documentation requirements from Part 1 to Part 7 because:

- (a) The specific communication requirements included in Part 1 relate to fraud or suspected fraud. Therefore, the Project Team proposes moving paragraphs 1.8.7, 1.8.8 and 1.8.9 to Part 7 (see paragraphs 7.6.3A, 7.6.3B and 7.6.3C).
- (b) The documentation requirement in Part 1 (paragraph 1.9.1.) relates to communications about fraud or suspected fraud made to management, those charged with governance, regulators and others. As the Project Team proposes to move the communication requirements to Part 7 (see paragraph 42(a) above), the Project Team proposes moving paragraph 1.9.1 to paragraph 7.7.1 (h). In addition, the Project Team made changes to align the requirement with paragraph 68(g) of ISA 240 (Revised).

#### Essential Explanatory Material

- 43. In December 2025, the Project Team noted that the application material included in ISA 240 (Revised) related to engagement resources provides a description of what forensic skills are and examples of when such skills may be needed. The Project Team is of the view that in an audit of an LCE the use of a specialist is most likely when fraud or suspected fraud is identified. Therefore, the Project Team proposes to add guidance based on paragraphs A39, A40 and A159 in ISA 240 (Revised) in the proposed ISA for LCE (Revised) as EEM under paragraph 7.4.27B (first paragraph).
- 44. In addition, the Project Team proposes adding or making changes to EEM for the following matters:
  - (a) The Project Team is of the view that guidance of the impact on the overall audit strategy from the understanding obtained about fraud or suspected fraud is critical. Therefore, the Project Team proposes adding EEM under paragraph 7.4.27B (second paragraph) based on paragraph A163 of ISA 240 (Revised).
  - (b) The Project Team is of the view that an explanation on when an identified misstatement is qualitatively material is important for the auditor's understanding of the requirement related to misstatements due to fraud, because such misstatements that are not quantitatively material may be qualitatively material. Therefore, the Project Team proposes adding EEM under paragraph 7.5.5 (first and second paragraphs) based on paragraph A11 of ISA 240 (Revised).
  - (c) The Project Team is of the view that the guidance to communicate to management as soon as practicable the identified fraud or suspected fraud is essential and proposes adding EEM under paragraph 7.6.3A (first paragraph) based on A196 of ISA 240 (Revised).

#### *Testing Method, Significant Assumptions and Data for Going Concern*

- 45. ISA 570 (Revised 2024) applies concepts introduced in ISA 540 (Revised)<sup>9</sup> and includes a requirement to:
  - (a) Evaluate the method, significant assumptions and data used by management to make its assessment of going concern in paragraph 19; and
  - (b) Evaluate the significant assumptions or data if they are included in management's plans for future actions in paragraph 27.
- 46. The financial statements of an LCE ordinarily do not include accounting estimates that involve the use of methods, models, assumptions or data that are complex (see Part A, paragraph A.3. of ISA

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<sup>9</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

for LCE). However, it was recognized that accounting estimates with greater complexity may arise during the course of the audit due to unexpected events, conditions or transactions that come to auditor's knowledge and that were not known to the auditor at the time of engagement acceptance or continuance. Therefore, the ISA for LCE includes requirements and guidance related to accounting estimates in Part 7 (paragraph 7.4.17) so that the auditor is able to obtain sufficient appropriate audit evidence in such circumstances.

47. The Project Team is of the view that paragraphs 19 and 27 of ISA 570 (Revised 2024) are also relevant for an audit of an LCE and wanted to leverage the requirements related to accounting estimates in Part 7 to avoid duplicating requirements in the standard. Therefore, the Project Team considered two alternatives to accommodate paragraph 19 of ISA 570 (Revised 2024):
  - (a) Adding a requirement for the auditor to evaluate the method, significant assumptions and data used by management in assessing the entity's ability to continue as a going concern. This requirement would be supplemented by EEM that refers to paragraph 7.4.17 for more details.
  - (b) Adding, as EEM under paragraph 7.4.1 (i.e., the requirement to evaluate management's assessment of the entity's ability to continue as a going concern), a consideration for the auditor to perform the procedures as required by paragraph 7.4.17.
48. Given the typical nature and circumstances of an audit of an LCE, the Project Team is of the view that management's assessment would generally not be complex and that a requirement was not needed. Therefore, the Project Team added EEM under paragraph 7.4.1 (as per paragraph 47(b) above).
49. Similarly, for paragraph 27 of ISA 570 (Revised 2024), the Project Team is of the view that management's assessment would generally not be complex and that a requirement was not needed. Therefore, the Project Team added EEM under paragraph 7.4.4.

#### *Other Changes*

50. For other changes to Part 7, see **Agenda Item 6-A**, **Agenda Item 6-B.4** and **Agenda Item 6-C**.

#### **Matter for IAASB Consideration:**

5. The Board is asked for their view on the Project Team's recommendations related to:
  - (a) Fraud or suspected fraud; and
  - (b) The method, significant assumptions and data for management's going concern assessment.
6. The Board is asked for their views on the other drafting related to Part 7 as presented in **Agenda Item 6-C**, informed by the steps applied as set out in **Agenda Items 6-A** and **6-B.4**.

#### **Part 8: Concluding**

51. See **Agenda Item 6-A**, **Agenda Item 6-B.5** and **Agenda Item 6-C**.

#### **Matter for IAASB Consideration:**

7. The Board is asked for their views on the drafting related to Part 8 as presented in **Agenda Item 6-C**, informed by the steps applied as set out in **Agenda Items 6-A** and **6-B.5**.

## Part 9: Forming an Opinion and Reporting

### *Approaches in Part 9 of the ISA for LCE*

52. In developing the ISA for LCE, the Board noted that the auditor's report is the key communication to intended users of the audited financial statements. Therefore, the Board had the view that the auditor's report required by the ISA for LCE should provide the same information as an auditor's report under the ISAs, but with appropriate transparency for users as to which standard(s) have been used in conducting the audit engagement. These needs have been balanced with the need to keep the ISA for LCE understandable and succinct.
53. The Board incorporated the reporting requirements in a clear and concise manner, and to be consistent with the principles that have been applied for incorporating requirements from the rest of the ISAs. Part 9 presents the reporting requirements using the following approach:
- (a) Providing a specified content and format for an unmodified auditor's report (see Part 9.4). Departures from the wording of the report are not permitted except where required for compliance with law or regulation, or when the opinion or report needs to be modified in response to the specific engagement circumstances.
  - (b) Using tables to present requirements related to the circumstances that may lead to the modification of the auditor's opinion, and the text that may be used in the report where modifications occur (see Part 9.5).
  - (c) Using tables to present the form and content when using emphasis of matter, other matter, material uncertainty related to going concern and other information paragraphs (see Parts 9.6 and 9.8).
  - (d) Including requirements in a standard text format where the presentation is not specified above (across Parts 9.4–9.8, as applicable).
54. The Board was of the view that this presentation is consistent with the design of the standard, appropriate for the circumstances of an audit of an LCE, and that all requirements that would be generally relevant to an audit of an LCE have been included. In addition, the Board was of the view that having a specified format for the auditor's report would be easier for users of the standard and improve consistency in application.

### *Revising the ISA for LCE*

55. When proposing changes to the ISA for LCE based on the underlying ISAs, the Project Team used the approach set out in paragraph 53 above.

### *Going Concern Section in the Auditor's Report*

56. The Project Team is of the view that the newly added separate section of the auditor's report "Going Concern" is relevant to the proposed ISA for LCE (Revised) as going concern matters are relevant to audits of all entities, regardless of size or complexity. Having the explicit statements in the auditor's report provides transparency to intended users that the auditor has fulfilled their responsibilities in relation to going concern. Therefore, the Project Team proposes addressing paragraph 34(a) of ISA 570 (Revised 2024) in the proposed ISA for LCE (Revised). In doing so, using the approach as set out in Part 9 of the ISA for LCE (see paragraph 53 (a)), the Project Team addressed the requirement

in the specified content and format for an unmodified auditor's report in paragraph 9.4.1. (herein referred to as illustrative auditor's report) based on Appendix 1 of ISA 570 (Revised 2024).

57. For other changes proposed in Part 9, see **Agenda Item 6-B.6** and **Agenda Item 6-C**.
58. In addition, the Project Team noted that the application material included in ISA 570 (Revised 2024) related to the reporting requirements provides guidance to practitioners on the possible changes to the illustrative reports included in the ISAs. As the proposed ISA for LCE (Revised) only includes one illustrative auditor's report in paragraph 9.4.1, the Project Team proposes not to incorporate the application material into the proposed ISA for LCE (Revised) but instead to update [the Auditor Reporting Supplemental Guidance](#).

**Matter for IAASB Consideration:**

8. The Board is asked for their views on the drafting related to Part 9 as presented in **Agenda Item 6-C**, informed by the steps applied as set out in **Agenda Items 6-A** and **6-B.6**.

## **Part 10: Audits of Group Financial Statements and Appendices**

### *Appendices about Fraud Risk Factors and Events or Conditions*

59. In revising the ISA for LCE, the Project Team wanted to align how the standard deals with fraud risk factors and events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (see Section II, Part 6). The Project Team noted that Appendix 4 of the ISA for LCE includes examples of fraud risk factors but that there is not such an appendix for 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 a new appendix with examples of identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. This appendix is based on paragraph A7 of ISA 570 (Revised 2024) and the Project Team proposes to place the appendix after Appendix 4 which includes examples of fraud risk factors.
60. In addition to aligning how the proposed ISA for LCE (Revised) addresses fraud risk factors and events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the Project Team is of the view that an appendix with events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, would be a useful addition and would give practical guidance.

### *Other Changes*

61. For changes to Part 10 and other changes to the appendices, see **Agenda Item 6-A**, **Agenda Item 6-B.7** and **Agenda Item 6-C**.

**Matter for IAASB Consideration:**

9. The Board is asked for their views on adding Appendix 4A for examples of identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
10. The Board is asked for their views on the drafting related to Part 10 and appendices as presented in **Agenda Item 6-C**, informed by the steps applied as set out in **Agenda Items 6-A** and **6-B.7**.
11. Are there any other matters that the Project Team should consider in preparing the final draft for the Board's consideration at the June 2026 Board meeting?

### **Section III: Way Forward**

62. Following the March 2026 IAASB meeting, the Project Team will discuss the Board's feedback and will refine the drafting. In addition, the Project Team will incorporate the feedback received from IESBA and will continue to liaise with other IAASB Project Teams.
63. The Project Team is planning to have an inaugural meeting with the LCE Advisory Group after the March 2026 IAASB meeting. The LCE Advisory Group is established to advise on the proposed ISA for LCE (Revised) and adoption and implementation of the standard. The LCE Advisory Group serves as a consultative forum for the IAASB to gather timely and relevant stakeholder input on these matters. The terms of reference of the LCE Advisory Group will be published on the IAASB's website in due course.
64. In June 2026, the Project Team plans to present to the Board an exposure draft of proposed ISA for LCE (Revised) for approval.

## **Project Team Members and Activities**

### **Project Team Members**

1. The Project Team consists of the following members:
  - Jasper van den Hout
  - Kazuko Yoshimura

### **Project Board Members**

2. The IAASB Project Board Members are:
  - Hernán Casinelli
  - Greg Schollum

### **Activities in the Period**

3. During the first quarter of 2026, the Project Team met with the Project Board Members three times, virtually, and had ongoing communication with them.