

### Maintenance of the ISA for LCE<sup>1</sup> – Analysis of the Public Interest Issues

This agenda item sets out the relevance for proposed revisions to the ISA for LCE (herein referred to as proposed ISA for LCE (Revised)) of the public interest issues (PIIs) that were addressed during the development of the International Standards on Auditing (ISAs) projects in scope for this ISA for LCE maintenance project.<sup>2</sup> This agenda item must be read together with **Agenda Items 6, 6-B.1–B.7, 6-C**.

For the March 2026 IAASB meeting, the Project Team focused its analysis on issues that are expected to be addressed in the appendices and the following parts of the proposed ISA for LCE (Revised):

- (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*.

The PIIs that was discussed in the December 2025 meeting have been grayed out in the tables below.

The PIIs are presented in the following four tables:

- (a) Table A: ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*;
- (b) Table B: ISA 570 (Revised 2024), *Going Concern*;
- (c) Table C: Narrow Scope Amendments Related to the Definitions of Listed Entity and PIE; and
- (d) Table D: Narrow Scope Amendments Arising from the IESBA's Using the Work of an External Expert Project.

For each PII, the relevant paragraphs from the applicable ISAs have been included to provide context and facilitate reference. The last two columns in each table set out the Project Team's conclusion regarding the relevance of the PII to the proposed ISA for LCE (Revised) and the part in which the PII will be addressed in the proposed ISA for LCE (Revised).

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

<sup>2</sup> The following ISA projects are in scope as set out in the [Project Proposal](#):

- ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*;
- ISA 570 (Revised 2024), *Going Concern*;
- The narrow scope amendments to the ISAs as a result of the revisions to the definitions of listed entity and public interest entity (PIE) in The International Ethics Standards Board for Accountants' (IESBA) *International Code of Ethics for Professional Accountants (including International Independence Standards)*; and
- The narrow scope amendments to IAASB Standards arising from the IESBA's using the work of an external expert project.

**Table A: Public Interest Issues included in the Project Proposal of ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements***

Public Interest Issue (PII) as included in the project proposal	Paragraph Addressing the PII in ISA 240 (Revised)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale <sup>3</sup>	Part in the proposed ISA for LCE (Revised) in which the PII will be addressed
<b>Roles and Responsibilities of the Auditor on Fraud in an Audit of Financial Statements</b>			
1. The introductory paragraphs in ISA 240 <sup>4</sup> explaining the inherent limitations of an audit can be misleading and result in misunderstanding of the auditor's obligations.	Para. 9–11 Para. A12	Yes	Part 1
2. A need has been expressed to clarify and emphasize the auditor's responsibilities regarding fraud in an audit of financial statements.	Paras. 2–8 Para. A1–A11	Yes	Part 1
3. There are terms and concepts associated with fraud, such as bribery, corruption, and money laundering, that are not directly addressed in the definition of fraud, and it has been noted that it is therefore unclear whether the auditor's procedures extend to include work related to such terms and concepts.	Paras. A19–A23	Yes	Part 1
4. Calls for the auditor undertaking more forensic type procedures, or the need for forensic specialists on all, or some, audits have been made due to the increasing use of forensic procedures on audits, including by forensic specialists.	Paras. 23, Paras. A38–A42	Yes	Part 3
	Para. 24 Paras. A43	Yes	Part 3

<sup>3</sup> Unless otherwise stated, if answered yes, the Project Team is of the view that the proposed ISA for LCE (Revised) contains requirements and essential explanatory material (EEM) based on the ISAs requirements that gave rise to this PII. Therefore, the same issue could arise for audit engagements in which the proposed ISA for LCE (Revised) is applied.

<sup>4</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

Public Interest Issue (PII) as included in the project proposal	Paragraph Addressing the PII in ISA 240 (Revised)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale <sup>3</sup>	Part in the proposed ISA for LCE (Revised) in which the PII will be addressed
<b>Identifying and Assessing Risks of Material Misstatement Due to Fraud</b>			
5. The auditor's risk identification and assessment process as it relates to fraud should be more robust (including that many aspects of the enhanced risk identification and assessment procedures in ISA 315 (Revised 2019) <sup>5</sup> have not been reflected in ISA 240).	Paras. 26–28; 30–41 Paras. A24–A26, A49–A52; A60–A125 Appendix 1	Yes	Part 6
6. The engagement team discussion is not sufficiently robust with respect to the auditor's considerations of fraud throughout the audit.	Para. 29, Paras. A43, A53–A59	Yes	Part 5
<b>Responses to the Assessed Risks of Material Misstatement due to Fraud</b>			
7. The auditor's responses to the assessed risks of material misstatement due to fraud should be more robust.	Paras. 42–52 Paras. A126–A153	Yes	Part 7
	Paras. 53 and A154–A155	Yes	Part 8
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	Para. 63 Paras. A193–A194	Yes	Part 8

<sup>5</sup> ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

Public Interest Issue (PII) as included in the project proposal	Paragraph Addressing the PII in ISA 240 (Revised)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale <sup>3</sup>	Part in the proposed ISA for LCE (Revised) in which the PII will be addressed
the responsibility to appropriately respond to the assessed risks of material misstatement due to fraud).			
<b>Use of Technology</b>			
9. ISA 240 needs to consider the impact of the entity's ability to use technology to enable fraudulent activity on the auditor's procedures.	Paras. A5, A9, A36, A40–A41, A56, A62, A66, A101, A103, A128, A129, A147, A151, A155  Appendix 2 and Appendix 4	Yes	See <b>Agenda Item 6</b> , paragraphs 16–18
10. ISA 240 needs to be modernized for the auditor's considerations about how new and evolving technologies, and current practice, impacts the auditor's procedures when considering fraud.	Paras. A5, A9, A36, A40–A41, A56, A62, A66, A101, A103, A128, A129, A147, A151, A155  Appendix 2 and Appendix 4	Yes	See <b>Agenda Item 6</b> , paragraphs 16–18

Public Interest Issue (PII) as included in the project proposal	Paragraph Addressing the PII in ISA 240 (Revised)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale <sup>3</sup>	Part in the proposed ISA for LCE (Revised) in which the PII will be addressed
<b>Relationship Between and Linkage of ISA 240 With Respect to ISA 250 (Revised)<sup>6</sup> and the Other ISAs</b>			
11. The relationship between ISA 240 and ISA 250 (Revised) is unclear, i.e., more clarity is needed if a fraud is identified or suspected, whether the auditor is performing procedures to comply with ISA 240 or ISA 250 (Revised).	Para. 14 Paras. A15–A17 Appendix 5	Yes	Part 1
12. The relationship between ISA 240 and other ISAs (e.g., standards addressing quality management, written representations, and external confirmations) should be clarified to promote an integrated risk-based approach with respect to fraud.	Para. 14 Paras. A15–A17 Appendix 5	No – The proposed ISA for LCE (Revised) is designed to follow the typical flow of an audit and integrates the different concepts. Therefore, the relationship between fraud and other matters does not need to be further clarified in the proposed ISA for LCE (Revised).	N/A
<b>Specific Fraud-Related Audit Procedures</b>			
13. Journal entries – uncertainty about how to select which journal entries to test that has resulted in inconsistent application.	Paras. 35–36 Paras. A99–A107 and Appendix 4	Yes	Part 6

<sup>6</sup> ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

Public Interest Issue (PII) as included in the project proposal	Paragraph Addressing the PII in ISA 240 (Revised)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale <sup>3</sup>	Part in the proposed ISA for LCE (Revised) in which the PII will be addressed
	Paras. 48–49 and A136–A147	Yes	Part 7
14. Presumption of fraud risk in revenue recognition – it is not clear when it may, or may not, be appropriate to rebut the presumption of fraud risk in revenue recognition, which has resulted in inconsistent application.	Para. 41, A114 and A119–A125	Yes	Part 6
15. Presumption of fraud risk in other account balances – stakeholders have questioned whether the presumption of fraud risk should be extended to include other account balances, such as goodwill.	Paras. A114 and A116	Yes	Part 6
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).	Paras. 30 and A60	Yes	Part 6
	Paras. 53 and A154–A155	Yes	Part 8
17. Fraud is identified or suspected – lack of clarity around the auditor's response in such circumstances.	Paras. 55–57, Paras. A7–A11, A28, A156–A172	Yes	Part 7
	Para. 58	Yes	Part 8
18. Unpredictability of audit procedures – unclear as to the required actions or types of fraud-related procedures to be undertaken by the auditor.	Para. 43 Paras. A126–A128	Yes	Part 7

Public Interest Issue (PII) as included in the project proposal	Paragraph Addressing the PII in ISA 240 (Revised)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale <sup>3</sup>	Part in the proposed ISA for LCE (Revised) in which the PII will be addressed
19. Non-material fraud – clarity is needed with respect to the auditor's responsibilities and whether more should be done when a possible non-material fraud is identified or suspected.	Para. A11	Yes	Part 7
20. Third party fraud – clarity is needed around the auditor's actions with respect to third party fraud.	Paras. A22–A23,	Yes	Part 1
	Paras. 29(a)(ii)(c) and A57	Yes	Part 5
	Para. A84	Yes	Part 6
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.	Para. 68(a) and A206	Yes	Part 5
	Para. 68(b)-(d)	Yes	Part 6
	Para. 68(e)-(g)	Yes	Part 7
22. External confirmations – clarity is needed as to whether the external confirmation process, as relevant to the auditor's considerations on fraud, should be more robust.	Paras. A130–A134	Yes	N/A <sup>7</sup>
<b>Professional Skepticism</b>			
23. The appropriate exercise of professional skepticism needs to be reinforced, including reminding the auditor of the importance of remaining alert to conditions that may indicate possible fraud and maintaining professional skepticism throughout the audit.	Paras. 12–13, 19–22, 42 Paras. A13–A14, A27–A33	Yes	Part 1

<sup>7</sup> The Project Team noted that the paragraphs in ISA 240 (Revised) addressing the PII #22 related to external confirmations are already covered in the proposed ISA for LCE (Revised). Therefore, the Project Team did not proceed with further analysis.

Public Interest Issue (PII) as included in the project proposal	Paragraph Addressing the PII in ISA 240 (Revised)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale <sup>3</sup>	Part in the proposed ISA for LCE (Revised) in which the PII will be addressed
<b>Transparency on the Auditor's Fraud-Related Procedures</b>			
24. The required communications with those charged with governance on fraud considerations may not be sufficiently robust in the current environment, including that such communications relating to fraud matters are not presently explicitly required throughout the audit.	Paras. 21, 25, Paras. A33, A44–A48	Yes	Part 1
	Paras. 32(c) –, 33(b), 34(b), A80–A82, A92–A95, A97–A98	Yes	Part 6
	Paras. 49(a), 55 and A158–A162,	Yes	Part 7
	Paras. 59(c)(i), 64–66 and A195–A200	Yes	Part 1
25. The auditor's report may not be transparent enough about the auditor's fraud-related responsibilities and procedures.	Paras. 60–62, A177–A192	Yes – The Project Team notes that ISA 240 (Revised) mainly addressed this PII by introducing requirements for listed entities that expand on ISA 701 <sup>8</sup> and strengthen the requirements for the auditor	Part 9

<sup>8</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*



Public Interest Issue (PII) as included in the project proposal	Paragraph Addressing the PII in ISA 240 (Revised)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale <sup>3</sup>	Part in the proposed ISA for LCE (Revised) in which the PII will be addressed
		to communicate KAMs related to fraud. The PII was also addressed by enhancing the auditor's responsibilities included in the auditor's report (through conforming amendments to ISA 700 (Revised)) <sup>9</sup> The Project Team is of the view that the conforming amendments are relevant to the proposed ISA for LCE (Revised).	

---

<sup>9</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

**Table B: Public Interest Issues (PIIs) included in the Project Proposal of ISA 570 (Revised 2024), *Going Concern***

Public Interest Issue	Paragraph Addressing the PII in ISA 570 (Revised 2024)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale <sup>3</sup>	Part in the proposed ISA for LCE (Revised) in which the PII will be addressed
<b>Risk Identification and Assessment</b>			
26. ISA 570 (Revised) <sup>10</sup> does not reflect the more robust risk identification and assessment process in ISA 315 (Revised 2019). A stronger link to ISA 315 (Revised 2019) would support timely identification of matters relating to management's assessment of going concern about events and conditions that may cast significant doubt on the entity's ability to continue as a going concern	Paras. 11–15 Paras. A7–A10; A12–A32	Yes	Part 6
<b>Timeline Over Which the Going Concern Assessment is Made</b>			
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.	Paras. 21–23; and A50–A57	Yes	Part 7
	Paras. 29 and A66	Yes	Part 8
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	Paras. 21–23; and A50–A57	Yes	Part 7
	Paras. 29 and A66	Yes	Part 8

<sup>10</sup> ISA 570 (Revised), *Going Concern*

Public Interest Issue	Paragraph Addressing the PII in ISA 570 (Revised 2024)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale <sup>3</sup>	Part in the proposed ISA for LCE (Revised) in which the PII will be addressed
applicable financial reporting framework need to be taken into account.			
<b>Information from Sources External to the Entity</b>			
29. There was a call to consider when auditors may leverage information from sources external to the entity to assist them when evaluating whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern.	Paras. 26–28 Paras. A17; A28; A59–A65	Yes	Part 7
30. It is unclear when it is appropriate to use information from a third-party when obtaining evidence of financial support.	Para. 28 Paras. A63–A65	Yes	Part 7
<b>Terminology</b>			
31. Certain terminology associated with going concern, such as “Material Uncertainty Related to Going Concern” and “significant doubt” is inconsistently understood and may therefore have varying interpretations. Certain stakeholders noted that some financial reporting frameworks may define these terms differently.	Paras. 10; A5–A6	Yes	Appendix 1
<b>Audit Techniques – Use of Technology</b>			
32. There is a call to consider modernizing ISA 570 (Revised) for how new and evolving technologies, and current practice, impact the auditor's work related to going concern.	Paras. A7; A13; A42; A46	Yes	See <b>Agenda Item 6</b> , paragraphs 16–18

Public Interest Issue	Paragraph Addressing the PII in ISA 570 (Revised 2024)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale <sup>3</sup>	Part in the proposed ISA for LCE (Revised) in which the PII will be addressed
<b>Management's Assessment of Going Concern</b>			
33. ISA 570 (Revised) does not reflect the more robust concepts in ISA 540 (Revised) <sup>11</sup> 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.	Paras. 16–17; 19; 24–25; 44 Paras. A33–A36; A38–A46; A58;	Yes	Part 7
	Paras. 39–40 and A97	Yes	Part 8
<b>Professional Skepticism</b>			
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.	Para. 18; Paras. A11; A37;	Yes	Part 1
	Paras. 30 Paras A68–A71	Yes	Part 8
<b>Transparency About the Auditor's Responsibilities and Work Related to Going Concern</b>			
35. The communication with those charged with governance on going concern may not be sufficiently robust, including that such	Paras. 12(f) and A21–A22	Yes	Part 6

<sup>11</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

Public Interest Issue	Paragraph Addressing the PII in ISA 570 (Revised 2024)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale <sup>3</sup>	Part in the proposed ISA for LCE (Revised) in which the PII will be addressed
communication may not always occur on a timely basis throughout the audit.	Paras. 41–42 and; A98–A101	Yes	Part 8
36. Where issues related to going concern are identified by the auditor, there is a need to clarify the auditor's responsibilities for additional communications with external parties, including with relevant regulatory authorities (as applicable).	Para. 43 Paras. A102–A105	Yes	Part 1
37. The auditor's report may not be sufficiently transparent with respect to the auditor's responsibilities and work related to going concern.	Paras. 32–33 Paras. A73–A77	Yes	Part 8
	Paras. 34–38 Paras. A78–A96 Appendix	Yes	Part 9
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".	Paras. 32–33 Paras. A73–A77	Yes	Part 8

Public Interest Issue	Paragraph Addressing the PII in ISA 570 (Revised 2024)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale <sup>3</sup>	Part in the proposed ISA for LCE (Revised) in which the PII will be addressed
	Paras. 34–38 Paras. A78–A96 Appendix	Yes	Part 9

**Table C: Public Interest Issues (PIIs) included in the Project Proposal for the Narrow Scope Amendments Related to the Definitions of Listed Entity and PIE**

Public Interest Issue (PII)	Paragraph Addressing the PII in the Narrow Scope Amendments	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale <sup>3</sup>	Part in the proposed ISA for LCE (Revised) in which the PII will be addressed
39. Increased complexity and inconsistent application and understanding when concepts across the IAASB and IESBA standards differ, including when there is misalignment in the types of entities to which differential requirements apply.	Paras. 9A–9B, 13(I)B and A13A–A13E of ISA 200 <sup>12</sup>	Yes – The revisions addressing this PII included replacing the definition of “listed entity” with the definition of “publicly traded entity”. The Project Team is of the view that the definition	Part A

<sup>12</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

Public Interest Issue (PII)	Paragraph Addressing the PII in the Narrow Scope Amendments	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale <sup>3</sup>	Part in the proposed ISA for LCE (Revised) in which the PII will be addressed
		of publicly traded entity should be adopted in the proposed ISA for LCE (Revised).	
<p>40. When developing or revising the ISQMs and ISAs, the need for a more robust and consistent approach as to when differential requirements for certain entities are appropriate. In particular, when setting differential requirements for certain entities, considering:</p> <ul style="list-style-type: none"> <li>(a) The need to maintain the relevance, robustness, proportionality and scalability of the ISQMs and ISAs.</li> <li>(b) Increased complexity if there are too many differential requirements for certain entities.</li> <li>(c) The heightened expectations of stakeholders regarding the performance of audit engagements for certain entities.</li> </ul>	<p>Paras. 9A–9B and A13A–A13E of ISA 200</p> <p>Paras. 18, 18A of ISA 260 (Revised)<sup>13</sup></p> <p>Paras. 34(b), 35(b) of ISA 570 (Revised 2024)</p> <p>Paras. 30–31, 40(b)–(c), 46, 50(I) of ISA 700 (Revised)</p> <p>Para. 5 of ISA 701<sup>14</sup></p>	No – The proposed ISA for LCE (Revised) does not include any requirements relevant to listed entities, or more broadly, differential requirements for certain entities.	N/A

<sup>13</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

<sup>14</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

Public Interest Issue (PII)	Paragraph Addressing the PII in the Narrow Scope Amendments	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale <sup>3</sup>	Part in the proposed ISA for LCE (Revised) in which the PII will be addressed
	Paras. 21–22(b) of ISA 720 (Revised) <sup>15</sup>		

**Table D: Public Interest Issues (PIIs) included in the Project Proposal for the Narrow Scope Amendments Arising from the IESBA's Using the Work of an External Expert Project**

Public Interest Issue (PII)	Paragraph Addressing the PII in the Narrow Scope Amendments	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale <sup>3</sup>	Part in the proposed ISA for LCE (Revised) in which the PII will be addressed
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.	Paras. 8, 9A, A13A, A16A, A18A, A19A, A19B, A24 and Appendix of ISA 620 <sup>16</sup>	Yes	Part 5

<sup>15</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

<sup>16</sup> ISA 620, *Using the Work of an Auditor's Expert*