

# Agenda Item

## 6-B.1

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

This agenda item sets out the revisions made in the International Standards on Auditing (ISAs) that are in-scope for the ISA for LCE maintenance project in **Part 1** 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 1, *Fundamental Concepts, General Principles and Overarching Requirements*

Revisions to the ISAs	Project Team's Views and Recommendations for the Proposed ISA for LCE (Revised)
<b>ISA 240 (Revised)<sup>2</sup></b>	
20. Third party fraud – clarity is needed around the auditor's actions with respect to third party fraud.	
<p><i>Paragraphs A22–A23</i></p> <ul style="list-style-type: none"> <li>Added application material that clarifies that fraud as defined in ISA 240 (Revised) can include an intentional act by a third party and explains with examples what third-party fraud is.</li> </ul>	<p><i>Essential Explanatory Material (EEM) under Part 1.5</i></p> <ul style="list-style-type: none"> <li>The Project Team proposes to include a section on third-party fraud in the EEM under Part 1.5 (last section) to further explain that an intentional act by a third-party resulting in misappropriation of assets or fraudulent financial reporting are to be regarded as fraud or suspected fraud and to clarify who these third-parties may be.</li> </ul>

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

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

Revisions to the ISAs	Project Team's Views and Recommendations for the Proposed ISA for LCE (Revised)
<b>ISA 570 (Revised 2024)<sup>3</sup></b>	
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).	
<p><i>Paragraphs 43 and A102–A105</i></p> <ul style="list-style-type: none"> <li>New requirement for the auditor to consider whether law or regulation requires or establishes responsibilities or rights under which reporting may be appropriate to an appropriate authority outside the entity for circumstances when a Material Uncertainty Related to Going Concern is included in the auditor's report or a modified opinion is issued.</li> <li>Application material on examples and factors for the auditor to consider when reporting to an appropriate authority outside the entity, including considering the timing of such communication</li> </ul>	<p><i>Paragraph 1.6.2</i></p> <ul style="list-style-type: none"> <li>The Project Team noted that the ISA for LCE includes a requirement in paragraph 1.6.2 to report to an appropriate authority outside the entity and therefore proposes to include the requirement related to going concern by amending the existing requirement.</li> </ul>

Changes Not Directly Linked to Public Interest Issues
<p><i>EEM under Part 1.4A</i></p> <ul style="list-style-type: none"> <li>The Project Team noted that the EEM under paragraph 6.3.1 (last paragraph) provides overarching guidance on going concern and since Part 1.4A is the first-time going concern is mentioned in the proposed ISA for LCE (Revised), the Project Team is of the view that the EEM is better located under Part 1.4A (first paragraph).</li> <li>The Project Team noted that the auditor's responsibilities related to going concern were included in Part 7 of the ISA for LCE. The Project Team is of the view that the auditor's responsibilities are better located in Part 1, as part of the general principles relating to an audit</li> </ul>

<sup>3</sup> ISA 570 (Revised 2024), *Going Concern*

**Changes Not Directly Linked to Public Interest Issues**

engagement. Also, the auditor's responsibilities related to fraud are included in Part 1 of the proposed ISA for LCE (Revised) (see EEM under Part 1.5, first section). Therefore, the Project Team proposes to move the auditor's responsibilities related to going concern in a new section of Part 1 (EEM under Part 1.4A (last paragraph)).

- In addition, the Project Team noted that the fraud section on the auditor's responsibilities also explains the responsibilities of management and those charged with governance. As the responsibilities section on fraud and going concern are located after each other, the Project Team noted that the proposed ISA for LCE (Revised) looks unbalanced when only explaining auditor's responsibilities in relation to going concern. Therefore, the Project Team proposes adding EEM under Part 1.4A (second paragraph) to explain the responsibilities of management as it relates to going concern. This EEM is based on paragraph 4 of ISA 570 (Revised 2024),

*Paragraph 1.4A.1*

- As noted above, the Project Team proposes adding auditor's and management's responsibilities in Part 1.4A to balance with the content on fraud in Part 1. To further balance with the content on fraud in Part 1 and to not have only EEM in Part 1.4A, the Project Team proposes adding an overarching requirement based on the objective of ISA 570 (Revised 2024). This is similar to what is included for fraud in Part 1.5.

*Paragraph 1.5.1. (a)*

- The Project Team is of the view that a part of this requirement should be placed in Part 6 as this aligns with the flow of the ISAs and is more intuitive. See **Agenda Item 6** (paragraph 27 (c)) for further details.

*Paragraph 1.6.2*

- The Project Team noted that, as part of the revision of ISA 240,<sup>4</sup> minor changes were made to paragraph 44 of extant ISA 240 (which is paragraph 67 of ISA 240 (Revised)) on reporting to an appropriate authority outside of the entity. The Project Team is of the view that paragraph 67 of ISA 240 (Revised) is addressed by paragraph 1.6.2. in the proposed ISA for LCE (Revised) and therefore proposes changes to align the wording with paragraph 67 of ISA 240 (Revised).

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

### Changes Not Directly Linked to Public Interest Issues

#### *EEM under paragraph 1.6.2*

- The Project Team proposes to change EEM under paragraph 1.6.2 to mirror that the proposed paragraph 1.6.2 includes non-compliance with laws and regulations, fraud and going concern. The Project Team replaced the EEM under paragraph 1.6.2 with paragraphs A201 and A204 of ISA 240 (Revised), A102 and A105 of ISA 570 (Revised 2024) and A33 of ISA 250 (Revised).<sup>5</sup>

#### *Move paragraphs 1.8.7, 1.8.8, 1.8.9 and 1.9.1*

- The Project Team proposes moving paragraphs 1.8.7, 1.8.8, 1.8.9 and 1.9.1 to Part 7, since they are closely related to the requirements in Part 7. See **Agenda Item 6** (paragraph 42) for further details.

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<sup>5</sup> ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*