

Agenda Item 3-A

Maintenance of the ISA for LCE – Explanation of Significant Changes to Proposed ISA for LCE (Revised)

This paper explains the significant changes and the rationale for the changes that have been made to the proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the ISA for LCE) (Revised) since the [March 2026 IAASB meeting](#).

The changes are reflected in the marked draft in **Agenda Item 3-B**.

Part 1, *Fundamental Concepts, General Principles and Overarching Requirements*

Paragraph	Significant Changes and the Rationale for Those Changes
1.4A Going Concern	
EEM under 1.4A (Responsibility of the Auditor and Management)	Based on Board Members' comments, the Essential Explanatory Material (EEM) explaining the auditor's responsibilities relating to going concern was viewed as duplicative of paragraph 1.4A.1. Accordingly, the ISA for LCE Project Team (the Project Team) deleted the second paragraph in the section and updated the headers.
1.5 Fraud	
EEM under 1.5 (Responsibility of the Auditor, Management and Those Charged with Governance)	- Based on Board Members' comments, the EEM explaining the auditor's responsibilities relating to fraud was viewed as duplicative of paragraph 1.5.1. Accordingly, the Project Team deleted the first paragraph. - In addition, the Project Team moved the second paragraph in the section, which explains management's responsibilities relating to fraud, to the EEM under paragraph 1.5.1 so that the order of responsibilities aligns with ISA 240 (Revised),¹ where the auditor's responsibilities are presented before management's responsibilities.
EEM under 1.5 (Inherent Limitations)	The Project Team reinstated the second last sentence of the paragraph explaining that fraud may involve concealment and intentional misrepresentations, as, upon reflection, the Project Team was of the view that this sentence provides essential guide in understanding the inherent limitations relating to fraud.

¹ International Standards on Auditing (ISA) 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

Paragraph	Significant Changes and the Rationale for Those Changes
EEM under 1.5 (Non-Compliance with Laws and Regulations)	The Project Team revised the reference from “section 1.6 of this standard” to “non-compliance with laws and regulations in this standard” because the ISA for LCE includes paragraphs relating to non-compliance with laws and regulations beyond those in section 1.6.
EEM under 1.5 (Relationship of Fraud with Corruption, Bribery and Money Laundering)	The Project Team deleted the second sentence because it did not directly relate to fraud and was considered educational in nature. In accordance with the drafting principles of the ISA for LCE, material that is educational or background in nature will not be included.
EEM under 1.5 (Third-Party Fraud)	Based on feedback received from the Project Team’s outreach activities, the Project Team deleted the first sentence as the term “third-party fraud” is used only in this EEM paragraph within the ISA for LCE and therefore it does not need to be clarified.
Paragraph 1.5.1	- The Project Team: - Revised the lead-in to paragraph 1.5.1 to be consistent with the lead-in of paragraph 1.4A.1 on the auditor’s responsibilities relating to going concern. - Aligned the requirement with the “Objectives” of ISA 240 (Revised)), to be consistent with paragraph 1.4A.1 as that paragraph is based on the “Objectives” in ISA 570 (Revised 2024).²
1.6A Reporting to an Appropriate Authority Outside the Entity	
Paragraph 1.6.2	The Project Team revised the structure of the requirement to improve readability.

² ISA 570 (Revised 2024), *Going Concern*

Part 2, Audit Evidence and Documentation

Paragraph	Significant Changes and the Rationale for Those Changes
2.3 Information to be Used as Audit Evidence	
Paragraph 2.3.3 EEM under 2.3.3	Based on comments from staff of the Professional Skepticism Consultation Group, the Project Team moved the first sentence in paragraph 2.3.3 to the EEM under paragraph 2.3.3. This sentence was removed from the requirements in ISA 240 (Revised) but remains in the application material in paragraph A24 of ISA 200.³ With this change, the ISA for LCE is aligned with the ISAs.

Part 6, Risk Identification and Assessment

Paragraph	Significant Changes and the Rationale for Those Changes
6.2 Procedures for Identifying and Assessing Risks and Related Activities	
Paragraph 6.2.4	Based on Board Members' comments, the Project Team reverted to the wording in the extant standard, except for fraud-related changes (i.e., the addition of "whether due to fraud or error" in the lead-in and replacing "fraud or error" with "fraud risk factor"), to address circularity in the proposed requirement (i.e., one cannot consider or determine something that the procedures are designed to identify).
EEM under 6.2.4 (Fraud Risk Factors)	The Project Team deleted the first sentence under the header 'Fraud Risk Factors' as the sentence repeats the definition of a fraud risk factor which is included in the Glossary of Terms.
Paragraph 6.2.4A	Based on Board Members' comments and in response to feedback from the ISA for LCE Advisory Group, the requirement was revised to align more closely with paragraph 28 of ISA 240 (Revised). In particular, the final sentence was added to allow the auditor to determine the nature and extent of the retrospective review based on the estimates in the financial statements, thereby supporting scalability.

³ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

Paragraph	Significant Changes and the Rationale for Those Changes
6.3 Understanding Relevant Aspects of the Entity	
Paragraphs 6.3.1 and 6.3.3A	In response to feedback from outreach and the ISA for LCE Advisory Group, paragraph 6.3.1(c) was revised to be more direct regarding control deficiencies, while paragraph 6.3.3A was removed as the requirement was viewed as duplicative of paragraph 6.3.1(c). The Project Team also revised the structure of paragraph 6.3.1(c) to improve readability.
EEM under 6.3.1 (sixth paragraph)	The Project Team added “unless all those charged with governance are involved in managing the entity” to reflect the nature and circumstances of typical LCEs, where those charged with governance may not be separate from management.
Paragraph 6.3.8	The Project Team moved paragraph 6.3.8(e) before paragraph 6.3.8(d) so that the requirement relating to understanding the entity’s resources in paragraph 6.3.8(d) also applies to going concern disclosures.
EEM under 6.3.8 (second paragraph)	Based on comments from staff of the Technology Consultation Group, EEM was added to the second paragraph based on paragraph A5 of ISA 240 (Revised). It was considered essential to provide guidance on the use of technology by the entity to commit fraud.
EEM under 6.3.14 (second paragraph)	Based on feedback received from the Project Team’s outreach activities, the Project Team deleted the second paragraph of EEM as it was considered to be sufficiently covered by paragraph 6.3.14.
6.4 Identifying and Assessing the Risks of Material Misstatement	
EEM under 6.4.2	See Issues Paper in Agenda Item 3 (paragraphs 13–24).

Part 7, Responding to Assessed Risks of Material Misstatement

Paragraph	Significant Changes and the Rationale for Those Changes
7.2 Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Financial Statement Level	
EEM under 7.2.2 (first paragraph) and paragraph 7.3.2(e)	- In response to feedback from the ISA for LCE Advisory Group, the Project Team deleted paragraph 7.3.2(e) as it was noted that the revision proposed at the March 2026 Board meeting made the ISA for LCE more stringent than the ISAs by separating the requirement to incorporate an element of unpredictability at the financial statement level and assertion level. Paragraph 43 of ISA 240 (Revised) allows the auditor to respond to the risks of material misstatement due to fraud holistically including at either the financial statement level or assertion level. - The Project Team added EEM under paragraph 7.2.2 explaining that the auditor may also incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures to address assessed risks of material misstatement due to fraud at the assertion level.
7.4 Specific Focus Areas	
Going Concern section	See Issues Paper in Agenda Item 3 (paragraphs 25–40).
Paragraph 7.4.6(a)(iv)	In response to feedback from the ISA for LCE Advisory Group, the Project Team reverted the work effort verb from “determine” to “consider”, as it was noted that “determine” may not be proportionate for typical LCEs. Typical LCEs are likely to have journal entries relevant to management override of controls at year-end, as they are unlikely to have interim financial reporting periods.
EEM under 7.4.6 (fourth paragraph)	In response to feedback from the ISA for LCE Advisory Group, the Project Team deleted the EEM, as it was not considered essential guidance in an audit of an LCE.
Paragraphs 7.4.27A–EEM under 7.4.27B	To enhance the scalability of the standard, the Project Team added a box to present the requirements that apply if the auditor identifies fraud or suspected fraud, with a header indicating this. This is consistent with the proposed revision to the Going Concern section.

Paragraph	Significant Changes and the Rationale for Those Changes
7.5 Accumulation of Misstatements	
EEM under 7.5.5 (Considerations Specific to Public Sector Entities)	The Project Team moved the second paragraph to the end, as the original placement was misleading and made it appear that the following paragraphs formed part of the section on “Considerations Specific to Public Sector Entities” although they did not.

Part 8, Concluding

Paragraph	Significant Changes and the Rationale for Those Changes
8.5 The Auditor’s Evaluations and Other Activities to Support the Auditor’s Conclusion	
Paragraph 8.5.7	Based on Board Members’ comments and comments from staff of the Professional Skepticism Consultation Group, the Project Team revised the requirement to align more closely with paragraph 30 of ISA 570 (Revised 2024). In particular, the rationale for excluding paragraph 30(b) on the basis that it was addressed in paragraph 8.5.5 was reconsidered. It was noted that paragraph 8.5.5 is an overarching conclusion on whether sufficient appropriate audit evidence has been obtained, while paragraph 8.5.7 is a going concern specific evaluation on whether sufficient appropriate audit evidence has been obtained regarding the appropriateness of management’s use of the going concern basis of accounting.
8.6 Written Representations	
Paragraph 8.6.1(m)(ii)	In response to feedback from the ISA for LCE Advisory Group, the Project Team deleted the requirement as there is no corresponding requirement in the proposed ISA for LCE (Revised). In its March 2026 meeting, the Board agreed that the auditors’ procedures relating to the methods, significant assumptions, and data used in making management’s assessment of going concern will not be addressed by a requirement but through EEM.
Paragraphs 8.6.1(m)(v) and 8.6.2A	In response to feedback from the ISA for LCE Advisory Group, the Project Team moved paragraph 8.6.2A to paragraph 8.6.1(m)(v), as it was unclear why the requirement was separated from the other written representation requirements relating to going concern.

Paragraph	Significant Changes and the Rationale for Those Changes
8.8 Specific Communication Requirements	
Paragraph 8.8.3(c)	The Project Team enhanced the requirement as the requirement was not aligned with paragraph 42(d) of ISA 570 (Revised 2024).
Paragraph 8.8.3(d)	Based on Board Members' comments, the Project Team enhanced the requirement, as the requirement was not aligned with paragraph 42(f) of ISA 570 (Revised 2024).

Appendices

Paragraph	Significant Changes and the Rationale for Those Changes
Appendix 4	The Project Team reverted back to “fraud hotlines” (from “whistleblower program”) as this was the only instance in the proposed ISA for LCE (Revised) where the term “whistleblower program” was used. The Project Team is of the view that without the related guidance in ISA 240 (Revised), there was a risk that the term could be misunderstood.
Appendix 7	Based on Board Members' comments, the Task Force revised the illustrative representation letter to align with the requirements in paragraph 8.6.1.