Explanatory Memorandum

Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (Revised)

JULY 2026

COMMENTS DUE: *NOVEMBER 17, 2026*

IAASB™
International Auditing and Assurance Standards Board
AN IFEA BOARD

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About the IAASB

This document was developed and approved by the International Auditing and Assurance Standards Board. It does not constitute an authoritative pronouncement of the IAASB, nor does it amend, extend or override the International Standards on Auditing (ISAs) or other of the IAASB's International Standards.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related services standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB and IESBA Stakeholder Advisory Council, which provides public interest input into the development of the standards and guidance.

REQUEST FOR COMMENTS

This Explanatory Memorandum (EM) accompanies, and should be read along with, the Exposure Draft of Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (Revised) (ED-ISA for LCE), which was developed and approved by the International Auditing and Assurance Standards Board® (IAASB®). This publication and the ED-ISA for LCE may be downloaded from the IAASB website: www.iaasb.org.

The approved text is published in the English language. The proposals set out in the ED-ISA for LCE may be modified, based on comments received, before being issued as a final pronouncement.

Comments are requested by November 17, 2026.

Use of the Response Form

We welcome comments on all matters addressed in the ED-ISA for LCE and we encourage all respondents to submit their comments electronically using the Response Form, which may be downloaded from the IAASB website: www.iaasb.org. Using the response form facilitates consistency in the structure of responses received from all our stakeholders, which assists us greatly in the timely and effective analysis of the responses.

The response form includes all questions in **Section II** of this EM. You may respond to all questions or only those questions for which you have specific comments.

All responses will be considered a matter of public record and will ultimately be posted on the IAASB website.

You can further assist our review and analysis by ensuring that your submission responds directly to the questions in the form and includes the rationale for your answers:

- If you disagree with the proposals in the ED-ISA for LCE, please provide specific reasons for your disagreement and include specific suggestions for changes (including specific wording) that may be needed to the requirements or essential explanatory material (EEM).
- If you agree with the proposals, it will be helpful for the IAASB to be made aware of this view as support for the IAASB's proposals cannot always be inferred when not stated.

Throughout, please be specific about the parts, sections, headings or paragraphs in the ED-ISA for LCE that your responses relate to.

Please refrain from inserting tables or text boxes in your responses.

When submitting a completed response form, it is not necessary to include a covering letter containing a summary of your key issues. The form provides an opportunity to include any other views you wish to place on the public record, should you choose to do so.

The completed response form can be uploaded using the "Submit Comment" link on the Proposed ISA for LCE (Revised) webpage.

EXPLANATORY MEMORANDUM

CONTENTS

Introduction

1. This memorandum provides background to, and an explanation of, the ED-ISA for LCE, which was unanimously approved for exposure by the IAASB in June 2026.

Background

2. In December 2023, the IAASB published the ISA for LCE, a standalone[1] standard which is proportionate and tailored to the needs of an audit of financial statements of an LCE. The ISA for LCE has been designed to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error.

3. The ISA for LCE was developed to provide a global solution to the growing concern about the length, complexity and understandability of the ISAs and their application to audits of LCEs. The standard was designed following specific principles to address the needs of an audit of an LCE.[2]

4. The standard is effective for audits of financial statements for periods beginning on or after December 15, 2025.

5. Since the ISA for LCE's publication, the IAASB has supported the adoption and implementation of the standard by, among other actions, developing supplemental guidance on the Authority and Reporting, a first-time implementation guide, an adoption guide, and webinars. These and other materials can be found on the ISA for LCE focus webpage.

Approach for Maintaining the ISA for LCE

6. At the time of approving the extant ISA for LCE in September 2023, the IAASB agreed to have an initial period of stability of at least three years from the date the standard becomes effective.[3] Therefore, the first revision to the ISA for LCE will not become effective before December 15, 2028.

7. In December 2025, the IAASB approved the Approach Statement for Maintaining the ISA for LCE (the Maintenance Approach), which explains the approach and the key principles for revising the ISA for LCE. It operationalizes the maintenance of the standard in a manner that is both effective and efficient, while ensuring transparency and consistency in execution.

8. The Maintenance Approach only addresses revisions to the ISA for LCE arising from new or revised ISAs.[4]

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[1] The term "standalone" in the context of the ISA for LCE means that the standard includes all requirements necessary for the auditors to obtain reasonable assurance. It also means that it does not require any other IAASB engagement standards to be applied with the ISA for LCE. Specifically, the standard is separate from the ISAs and there is no direct reference back to the requirements or application material in the ISAs in its application.

[2] Refer to Section III of the First-Time Implementation Guide for more information on the overarching concepts in the ISA for LCE, including the standard's overall design.

[3] See Basis for Conclusions, Section J - Maintenance.

[4] The IAASB anticipates that in addition to revisions to the ISA for LCE because of the development of new or revised ISAs, the ISA for LCE may be revised because of monitoring and information-gathering activities, for example, post-implementation review of the ISA for LCE, ongoing monitoring of the environment, related activities of stakeholders (e.g., that of jurisdictional standard setters, policy makers, audit and assurance oversight bodies, international organizations) and feedback received from general or project-specific outreach activities, which may reveal the need for possible standard-setting action.

9. The purpose of the maintenance is to develop revisions to the ISA for LCE, in light of revisions to identified ISAs, that are:

   (a) Relevant in the context of the typical nature and circumstances of an audit of an LCE; and

   (b) Aligned with the core requirements and concepts of the ISAs in a proportionate way.

10. In the outreach the IAASB performed to help with the adoption and implementation of the standard and during the development of ED-ISA for LCE, some stakeholders raised concerns regarding certain aspects of the Maintenance Approach. This matter is further discussed in Section I-J (paragraphs 72–76).

First Revisions of the ISA for LCE

11. The IAASB commenced its work on the first maintenance project of the ISA for LCE in Q3 2025 and in December 2025, the IAASB approved the related project proposal. The project proposal addresses the revisions to the ISA for LCE as a result of the following IAASB projects (collectively referred to as the underlying ISA projects):

    - Fraud – ISA 240 (Revised);[5]
    - Going Concern – ISA 570 (Revised 2024);[6]
    - Listed Entity and Public Interest Entity (Narrow-Scope Amendments); and
    - Experts (Narrow-Scope Amendments).

12. The following are the three main steps in undertaking this maintenance project:[7]

    - Step 1: Consider the relevance to the ISA for LCE of the public interest issues that were addressed during the development of the new or revised ISA(s);
    - Step 2: Develop, based on the approach taken in the new or revised ISA(s) and using the design principles of the ISA for LCE, a solution to address the issues in a manner that is proportionate in the context of the ISA for LCE; and
    - Step 3: Determine whether the proposed revisions to the ISA for LCE achieve the project objective and thereby the purpose of maintaining the standard.

Coordination with International Ethics Standards Board for Accountants (IESBA) and IAASB Consultation Groups

IESBA

13. IAASB technical staff coordinated with IESBA technical staff throughout the development of the project proposal and the ED-ISA for LCE to obtain relevant input on technical matters of common interest and the continued interoperability of the two Boards' standards. No issues or concerns were identified by IESBA technical staff.

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[5] ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

[6] ISA 570 (Revised 2024), *Going Concern*

[7] See the Maintenance Approach, paragraph 7.

IAASB Consultation Groups

14. IAASB technical staff met with the Technology Consultation Group and the Professional Skepticism Consultation Group to discuss whether the ED-ISA for LCE appropriately reflects the revisions reflected in ISA 240 (Revised) and ISA 570 (Revised 2024) relating to technology and professional skepticism, respectively. The groups provided several suggestions to further enhance the standard in these areas and those suggestions were incorporated where deemed appropriate.

Key Stakeholder Engagement

15. As the ISA for LCE has been developed to reflect the typical nature and circumstances of audits of financial statements of LCEs, the IAASB considered it critical to hear from stakeholders that use the ISA for LCE or from auditors that audit LCEs. Therefore, the IAASB undertook outreach with those stakeholders to obtain feedback on proposals, including whether the proposed revisions are relevant and proportionate to the typical nature and circumstances of audits of LCEs.

16. In addition, the inaugural meeting of the ISA for LCE Advisory Group[8] was held in April 2026. The ISA for LCE Advisory Group was established to advise on the ISA for LCE as well as matters relating to adoption and implementation of the standard and to serve as a consultative forum for the IAASB to obtain timely and relevant stakeholder input.

17. Stakeholders provided several suggestions to further enhance the standard and those suggestions were incorporated where deemed appropriate.

Section I – Significant Matters

18. This section sets out the key changes proposed to the ISA for LCE as a result of changes to the underlying ISA projects.

A. Public Interest Issues Addressed

19. The IAASB considered the relevance to the ISA for LCE of the public interest issues identified in the underlying ISA projects and how to best incorporate the results of the related standard-setting actions of those projects into the ED-ISA for LCE to achieve the project objectives (see step 1 in paragraph 12). The **Appendix** to this EM maps the relevance of the public interest issues included in the project proposals of the underlying ISA projects to the ISA for LCE and the related key revisions in ED-ISA for LCE. The **Appendix** also highlights the qualitative characteristics of the Public Interest Framework that were considered to be the criteria of most relevance to assess the proposed revised standard's responsiveness to the public interest.

20. If a public interest issue was deemed (partly) relevant for the ISA for LCE, the IAASB developed a solution to address the issue in a manner that is proportionate in the context of the ISA for LCE (see step 2 in paragraph 12).

[8] The ISA for LCE Advisory Group comprises eleven members representing a range of stakeholders, including practitioners, jurisdictional standard setters, software providers and academics, drawn from various geographical regions to support global representation.

B. Part A, *Authority of the ISA for Audits of Financial Statements of Less Complex Entities*

21. The ISA for LCE uses the term "listed entity" in Part A and listed entity is a class of entities for which the use of the ISA for LCE is prohibited. As part of the Listed Entity and Public Interest Entity project, the IAASB replaced the term "listed entity" with "publicly traded entity" in the ISAs and ISQMs.[9]

22. Given that ISQM 1[10] also applies to engagements performed using the ISA for LCE, the IAASB considered it important that the terms are aligned. Therefore, the IAASB replaced the term "listed entity" with "publicly traded entity" in paragraph A.1[11] and the EEM under paragraph A.2. The IAASB also added EEM under paragraph A.2. to clarify how legislative or regulatory authorities or relevant local bodies with standard-setting authority may define more explicitly a publicly traded entity in a jurisdiction. As the existing EEM already included guidance on how such authorities or bodies may modify the classes of entities included in paragraph A.1(c), the IAASB considered the new guidance to be appropriately located there.

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

The Auditor's Responsibilities Relating to Fraud and Going Concern

23. As part of the revisions reflected in ISA 240 (Revised), the IAASB decoupled the descriptions about inherent limitations of an audit and the auditor's responsibilities because the inherent limitations do not diminish the auditor's responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud. In addition, the IAASB reordered the introductory paragraphs to refer to the auditor's responsibilities before the responsibilities of management and those charged with governance.

24. The IAASB considered the enhanced emphasis on the auditor's responsibilities to be relevant for the typical nature and circumstances of an audit of an LCE. Accordingly, the IAASB decoupled the descriptions about inherent limitations of an audit and the auditor's responsibilities in the EEM and reordered the descriptions of responsibilities so that the auditor's responsibilities are presented before those of management and those charged with governance (see paragraph 1.5.1 and related EEM)

25. To ensure a balanced approach to fraud and going concern and to align with ISA 570 (Revised 2024), the IAASB added a section on Going Concern in Part 1. As in the fraud section, the auditor's responsibilities relating to going concern are clarified (based on paragraph 9 of ISA 570 (Revised 2024)). In doing so, EEM about the auditor's responsibilities relating to going concern was moved from Part 7 to EEM under paragraph 1.4A.1. In addition, EEM relating to management's responsibilities was added under Part 1.4A. This guidance is based on paragraph 4 of ISA 570 (Revised 2024).

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9 International Standard on Quality Management (ISQM)

10 ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

11 The ISA for LCE uses a structured numbering system in which the first number identifies the Part, the second identifies the section within that Part, and the third identifies the paragraph. Unless otherwise stated, references to paragraphs using this numbering convention are references to paragraphs in the ISA for LCE.

Guidance Related to Fraud

26. The IAASB is of the view that the following enhancements in ISA 240 (Revised) are relevant to the typical nature and circumstances of an audit of an LCE and, therefore, added EEM under Part 1.5 about:

    (a) *Inherent Limitations* – The IAASB aligned the wording with paragraphs 9 and 10 of ISA 240 (Revised) which describes that while the risk of detecting a misstatement of fraud is higher than error, this does not diminish the auditor's responsibility, nor a justification for less than persuasive audit evidence.

    (b) *Non-Compliance with Laws and Regulations* – The IAASB linked the auditor's responsibilities relating to identified or suspected fraud with the auditor's responsibilities relating to non-compliance with laws and regulations.

    (c) *Relationship of Fraud with Corruption, Bribery and Money Laundering* – The IAASB explained how concepts such as bribery and corruption, and money laundering, relate to the definition of fraud for the purposes of an audit of financial statements.

    (d) *Third-Party Fraud* – The IAASB explained that intentional acts by third parties resulting in misappropriation of assets or fraudulent financial reporting are to be regarded as fraud or suspected fraud and clarified who such third-parties may be.

Communication with Those Charged with Governance

27. The Listed Entity and Public Interest Entity project extended the application of the requirement to communicate with those charged with governance a statement regarding compliance with relevant ethical requirements relating to independence from listed entities to all entities (paragraph 18 of ISA 260 (Revised)).[12] The IAASB considered this revision to be relevant to the ISA for LCE as compliance with relevant ethical requirements is foundational to all audits of financial statements and, accordingly, added paragraph 1.8.2(b) to align with ISA 260 (Revised).

D. Part *2, Audit Evidence and Documentation*

28. Paragraph 2.3.3 is based on paragraph 22 of ISA 240 (Revised) which deals with maintaining professional skepticism when obtaining information. The sentence stating: "unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine" was removed from paragraph 22 of ISA 240 (Revised). As the application material in paragraph A24 of ISA 200[13] has a similar sentence ("The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary."),[14] the IAASB moved the first sentence from paragraph 2.3.3. to the EEM. With this change, the ED-ISA for LCE is aligned with the relevant ISAs that address this matter.

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[12] ISA 260 (Revised), *Communication with Those Charged with Governance*

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

[14] The IAASB noted that the Audit Evidence and Risk Response project proposes to delete this sentence from paragraph A24 of ISA 200. The IAASB did not incorporate these changes as they are outside of the scope of this maintenance project.

E. Part 5, *Planning*

29. As part of the Experts project the IAASB made amendments to ISA 620[15] resulting from the revisions to IESBA's *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) related to using the work of an external expert. The IAASB did so to maintain interoperability between the IAASB standards and the IESBA Code.

30. As for the ISA for LCE, the IAASB:

    (a) Added a sub-requirement for the auditor to consider whether ethical requirements include provisions related to using the work of an expert when determining the nature, timing and extent of procedures related to an auditor's expert (see paragraph 5.2.11(f)) and aligned the requirement with paragraph 8 of ISA 620; and

    (b) Added a requirement to prohibit using the work of an auditor's expert when the auditor concludes that the expert does not have the necessary competence, capabilities and objectivity (see paragraph 5.2.12A).

F. Part 6, *Risk Identification and Assessment*

Fraud Risk Factors and Events or Conditions that May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern

Extant ISA for LCE

31. 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.

32. Therefore, during the development of the ISA for LCE, the IAASB made several changes to the ISA requirements that Part 6 is based on. As a result, 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 risks of material misstatements (ROMMs) as a basis to design and perform audit procedures responsive to assessed risks.

33. In Part 6, proportionality is addressed as follows:

    (a) In obtaining an understanding of the entity's system of internal control, the following changes were made when the extant ISA for LCE was developed:

        (i) 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 paragraphs 6.3.1(a) and (c)). This is because inquiry was deemed sufficient and proportionate to an audit of a typical LCE and would appropriately drive the overall consideration of ROMMs and control deficiencies.

        (ii) The detailed list of matters to be understood in paragraph 21 of ISA 315 (Revised 2019),[16] about the control environment is presented as EEM under paragraph 6.3.7 (first

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[15] ISA 620, *Using the Work of an Auditor's Expert*

[16] ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

paragraph) as not all matters included in ISA 315 (Revised 2019) are relevant for a typical LCE.

(iii) The requirement related to the entity's information system and communication in paragraph 25 of ISA 315 (Revised 2019) was 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).

(b) In identifying and assessing ROMMs, the separate requirements in paragraphs 28–31 of ISA 315 (Revised 2019), 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, 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)

34. In the revisions reflected in both ISA 240 (Revised) and ISA 570 (Revised 2024), an important public interest issue was to better link the auditor's understanding and work effort to the more robust risk identification and assessment process in ISA 315 (Revised 2019).

35. In doing so, ISA 240 (Revised) focusses on obtaining audit evidence that provides an appropriate basis for the identification and assessment of ROMMs due to fraud at the financial statement and assertion levels taking into account fraud risk factors. 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.

36. In addition, the linkages with ISA 315 (Revised 2019) were enhanced by:

(a) Adding new and enhanced requirements that are based on ISA 315 (Revised 2019).

(b) Structuring ISA 240 (Revised) and ISA 570 (Revised 2024) to follow a similar structure as ISA 315 (Revised 2019).

Revising the ISA for LCE

37. The IAASB 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 IAASB closely looked where in Part 6 more emphasis could be added to the identification of:

(a) Fraud risk factors; and

(b) Events or conditions related to going concern.

38. To do so, the following revisions were made to Part 6:

(a) *ROMMs arising from fraud risk factors and 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 (see paragraph 6.2.4(c)).

Paragraph 6.2.4(a) has been revised to align with paragraph 26 of ISA 240 (Revised) by referring to fraud risk factors rather than fraud or error. In addition, the EEM under paragraph

6.2.4 (second section) has been enhanced to explain the relationship between fraud risk factors and ROMM due to fraud.

With respect to events or conditions, paragraph 6.2.1(aA) has been added to align with paragraph 11 of ISA 570 (Revised 2024). This new paragraph in ISA 570 (Revised 2024) requires the auditor to design and perform procedures to obtain audit evidence that provides an appropriate basis for determining whether events or conditions have been identified. As a result of the addition of paragraph 6.2.1(aA), paragraph 6.2.4(c) was considered redundant and has been deleted. In addition, the IAASB enhanced the EEM under paragraph 6.2.1 by incorporating guidance, considered essential for applying the requirement relating to events or conditions.

(b) *Identifying 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 (Revied 2019). EEM under Part 6.3 has been enhanced to explain that understanding relevant aspects of the entity helps the auditor identify possible fraud risk factors and events or conditions. The IAASB 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 approach in ISA 240 (Revised) and ISA 570 (Revised 2024).

(c) *Evaluating whether fraud risk factors are present*. The IAASB moved part of paragraph 1.5.1(a) to paragraph 6.3.14A 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 judgment whether fraud risk factors individually or in combination, indicate that there is a ROMM.

(d) *Evaluating whether events or conditions are present*. Similar to the evaluation of fraud risk factors as described in paragraph 38(c), the IAASB is of the view that such an evaluation is useful for events or conditions. Therefore, the IAASB incorporated a 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 IAASB added a reference to fraud risk factors to align with paragraph 39 of ISA 240 (Revised). In addition, the IAASB added EEM 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 may impact ROMMs due to fraud.

39. In addition, the IAASB sought to achieve an appropriate balance in how the standard addresses fraud risk factors and events or conditions. The IAASB noted that Appendix 4 of the ISA for LCE includes examples of fraud risk factors, whereas there is currently no equivalent appendix for events or conditions related to going concern. Accordingly, the IAASB has added a new appendix (Appendix

3A) containing examples of such events or conditions. The IAASB considers that this appendix would provide useful practical guidance to auditors. Appendix 3A is based on paragraph A7 of ISA 570 (Revised 2024).

Presumption of ROMMs Due to Fraud in Revenue Recognition

Extant ISA for LCE

40. One of the most prominent areas where respondents to the Exposure Draft (July 2021) of the extant ISA for LCE questioned whether the requirements were 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.

41. In response, the IAASB 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[17] 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 (see paragraph 6.4.2).

ISA 240 (Revised)

42. The IAASB enhanced the requirement relating to the presumption of ROMMs due to fraud in revenue recognition in paragraph 41 of ISA 240 (Revised) by:

- 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 such risks.

Revising the ISA for LCE

43. The engagement with stakeholders (see paragraphs 15–17) informed the IAASB about the importance of making the presumption of ROMMs due to fraud in revenue recognition proportionate to the typical nature and circumstances of LCEs.

44. Stakeholders, on balance, were of the view that ROMM due to fraud in revenue recognition do arise in audits of LCEs. Therefore, they were supportive of keeping the requirement in paragraph 6.4.2 and aligning it to the equivalent requirement in ISA 240 (Revised). They also noted that the ROMM due to fraud may be higher in areas other than revenue recognition. For example, there may be greater opportunities for management to override controls given that in a typical LCE there is limited segregation of duties allowing a single individual to override controls.

45. On the other hand, stakeholders were generally of the view that the presumption of ROMMs due to fraud in revenue recognition is more likely to be rebutted in an audit of a LCE as a typical LCE is likely to have a single, simple or straightforward revenue stream. In this regard it is also relevant to consider the likelihood of rebuttal in the context of the population of entities whose audits are within the scope of the ISA for LCE compared to the ISAs that apply across the entire spectrum of audited

[17] ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

entities (from smaller and less complex to larger and more complex entities, including the most complex entities and publicly traded entities).

46. Based on the stakeholder outreach, the IAASB aligned the requirement related to the presumption of ROMMs due to fraud in revenue recognition (paragraph 6.4.2) with paragraph 41 of ISA 240 (Revised).

47. Regarding the guidance on rebuttal of the presumption of ROMMs due to fraud in revenue recognition, the IAASB considered the following matters:

    (a) *The overall design principles of the ISA for LCE.* One of the overall design principles is focusing on the outcome the auditor is expected to achieve and states that the requirements in the ISA for LCE are expected to deliver a similar outcome as the ISA requirements when applied to an audit of an LCE.

    (b) *The key issues identified in the project proposal to revise ISA 240.* The application material in ISA 240 (Revised) relating to ROMMs due to fraud in revenue recognition (paragraphs A119–A125) was developed to address the following key issue: "It is not clear when it may, or may not, be appropriate to rebut the presumption of ROMMs due to fraud in revenue recognition, which has resulted in inconsistent application."

    (c) *The Authority of the standard.* In LCEs, revenue recognition is more likely to be simple and straightforward given the following qualitative characteristics as set out in the Authority (paragraph A.3):

        (i) The entity's business activities, business model, or the industry in which the entity operates, do not give rise to significant pervasive business risks.

        (ii) The entity's transactions result from few lines of business or revenue streams.

        (iii) The entity's financial statements ordinarily do not include accounting estimates that involve the use of methods, models, assumptions, or data, that are complex.

48. Given the above, the IAASB decided the following:

    (a) Adding EEM that clarifies how ROMMs due to fraud may arise from revenue recognition in an LCE. The IAASB is of the view that such guidance is useful to support a consistent application of the requirement. The messaging of the EEM is based on paragraphs A119–A121 of ISA 240 (Revised) but has been adapted to the typical nature and circumstances of an audit of an LCE. The EEM also provides examples and links to Appendix 4 of the standard which sets out examples for fraud risk factors (see first paragraph of EEM under paragraph 6.4.2).

    (b) Adding EEM that explains that determining whether fraud risk factors indicate a ROMM due to fraud is a matter of professional judgment. This EEM is based on paragraph A122 of ISA 240 (Revised) and addresses an important area where the auditor applies professional judgment (see second paragraph of EEM under paragraph 6.4.2).

    (c) Enhancing EEM that explains when it may be appropriate to rebut the presumption of fraud in revenue recognition. The enhancements are based on paragraph A123 of ISA 240 (Revised) and link back to the qualitative characteristics of an LCE and the fraud risk factors identified (see third paragraph of EEM under paragraph 6.4.2).

49. Based on these proposals, the IAASB is of the view that the requirement and related EEM is expected to deliver a similar outcome as with the ISA requirements when applied to an audit of an LCE. The IAASB is also of the view that the enhanced EEM will be clearer in highlighting to auditors the matters that ought to be considered about when it may, or may not, be appropriate to rebut the presumption of ROMMs due to fraud in revenue recognition.

G. Part 7, *Responding to Assessed Risks of Material Misstatement*

Fraud or Suspected Fraud

Extant ISA for LCE

50. In the extant ISA for LCE, fraud or suspected fraud is dealt with in Part 1 and includes specific communication and documentation requirements. 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 levels.

ISA 240 (Revised)

51. 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 for audit procedures when fraud is identified or suspected.

    (b) Requirements that clarify that the auditor is required to obtain an understanding of the identified fraud or suspected fraud and the engagement partner's responsibilities relating to fraud or suspected fraud (paragraph 55 and 56 of ISA 240 (Revised)).

    (c) A threshold for the auditor to exclude from further consideration those instances of fraud or suspected fraud that are "clearly inconsequential" (paragraph 56 of ISA 240 (Revised)).

Revising the ISA for LCE

52. Given the public interest importance of the changes to ISA 240 (Revised) regarding fraud or suspected fraud, the IAASB decided to mirror ISA 240 (Revised) by introducing a separate section containing requirements that apply when fraud or suspected fraud is identified. The IAASB is of the view that this section is most appropriately located in Part 7.4 (Specific Focus Areas), which contains requirements relating to specific audit procedures on particular topics. The section is placed immediately after the section on "Audit Procedures When Non-Compliance with Law or Regulation is Identified or Suspected," thereby locating the requirements relating to fraud or suspected fraud alongside similar requirements addressing non-compliance with laws and regulations.

53. The IAASB noted that Part 1 in the extant ISA for LCE also includes requirements addressing fraud or suspected fraud. However, Part 1 focuses on fundamental concepts, general principles and overarching requirements, and therefore specific procedures to address fraud or suspected fraud do not naturally fit in Part 1. Given the introduction of a section on fraud or suspected fraud in Part 7, the IAASB decided to relocate the related specific communication and documentation requirements from Part 1 to Part 7.

54. The IAASB is of the view that the requirements in paragraphs 55 and 56 of ISA 240 (Revised) are relevant to audits for LCEs because they provide greater clarity regarding the auditor's response to

fraud or suspected fraud. Accordingly, requirements based on these requirements have been added (see paragraphs 7.4.27A and 7.4.27B). In doing so, the IAASB introduced scalability, similar to ISA 240 (Revised), by having the "clearly inconsequential" threshold. In addition, to further enhance scalability and facilitate easy navigation, the IAASB has presented the requirements that apply if the auditor identifies fraud or suspected fraud within a text box to clearly distinguish the conditional requirements.

Going Concern Section (Part 7.4)

Extant ISA for LCE

55. Part 7.4 of the extant ISA for LCE includes procedures for evaluating management's assessment of the entity's ability to continue as a going concern.

ISA 570 (Revised 2024)

56. To strengthen the auditor's evaluation of management's assessment of the entity's ability to continue as a going concern, ISA 570 (Revised 2024) includes new and enhanced requirements. New requirements include evaluating the method, significant assumptions and data used by management to make its assessment of going concern (see paragraph 19 of ISA 570 (Revised 2024)) and evaluating the significant assumptions or data if they are included in management's plans for future actions (see paragraph 27 of ISA 570 (Revised 2024)). These requirements apply the concepts introduced in ISA 540 (Revised).[18]

57. In addition, the commencement date of the twelve-month period of management's assessment, which is used as the basis for the auditor's evaluation, was changed from the date of the financial statements to the date of approval of the financial statements.

Revising the ISA for LCE

Streamlining the going concern section

58. Stakeholders (see paragraphs 15–17) had several suggestions on how the Evaluating Management's Assessment section in ISA 570 (Revised 2024) should be adapted to be appropriately proportionate to the typical nature and circumstances of LCEs.

59. In incorporating the expanded section (as included in ISA 570 (Revised 2024)) in the ED-ISA for LCE, the IAASB considered it necessary to streamline the requirements and require the auditor to:

    (a) Design and perform audit procedures to evaluate management's assessment of the entity's ability to continue as a going concern (see paragraph 7.4.1). This requirement is based on paragraph 17 of ISA 570 (Revised 2024) and also addresses the auditor's consideration of whether management's assessment includes all relevant information of which the auditor is aware (see paragraph 24 of ISA 570 (Revised 2024)).

    (b) If management has not performed an assessment of the entity's ability to continue as a going concern that covers a period of at least twelve months from the date of approval of the financial statements, request management to make such assessment (see paragraph 7.4.1A). This requirement is based on paragraphs 16 and 21 of ISA 570 (Revised 2024) and also addresses

[18] ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

the auditor's response if management is unwilling to make its assessment (see paragraphs 22–23 of ISA 570 (Revised 2024)).

(c) Inquire of management regarding its knowledge of events or conditions beyond the period of management's assessment (see paragraph 7.4.3). This requirement was already included in the extant ISA for LCE and has been aligned with paragraph 20 of ISA 570 (Revised 2024).

60. The IAASB also presented the requirements that apply if the auditor identifies events or conditions (paragraphs 7.4.3A, 7.4.4 and 7.4.4A, and the related EEM) within a text box to improve scalability and facilitate navigation by clearly distinguishing the conditional requirements.

The lack of formal going concern assessment by management

61. Stakeholders (see paragraphs 15–17) noted that in a typical LCE, management is unlikely to perform a formal assessment of the entity's ability to continue as a going concern. Stakeholders noted that going concern issues are more likely to be identified when reviewing the financial statements as part of designing and performing procedures for identifying and assessing ROMM and making inquiries with management about the entity's ability to continue as a going concern.

62. The IAASB considered how the standard can reflect the typical nature and circumstances of an LCE, especially the lack of a formal assessment of the entity's ability to continue as a going concern by management, without inadvertently suggesting that management could abdicate their responsibility for assessing the entity's ability to continue as a going concern. In doing so, the IAASB considered:

(a) The project objectives of the project to revise ISA 570 (Revised).[19] One of the project objectives was to strengthen the auditor's evaluation of management's assessment of going concern;

(b) The guidance included in the application material in ISA 570 (Revised 2024); and

(c) Stakeholders' comment during the development of the extant ISA for LCE[20] and the development of the ED-ISA for LCE.

63. In response, the IAASB considered enhancements to the standard and decided to:

(a) Retain the EEM under paragraph 7.4.1, which explains how the auditor's evaluation may be satisfied when management has not prepared a detailed assessment. This EEM leverages the application material from paragraph A12 of ISA 570 (Revised) and was generally recognized as being appropriate and proportionate in reflecting the typical nature and circumstances of an LCE.

(b) Enhance the EEM under paragraph 7.4.1 by incorporating guidance, based on paragraph A35 of ISA 570 (Revised 2024), explaining that a less extensive analysis by management to support its assessment may not prevent the auditor from concluding whether management's use of the going concern basis of accounting is appropriate in the circumstances.

(c) Add EEM under paragraph 7.4.1A, based on paragraph A56 of ISA 570 (Revised 2024), relating to when management's assessment covers a period of less than twelve months from

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

20 The lack of a formal going concern assessment by management was also raised during the development of the extant ISA for LCE (see Agenda Item 6, paragraph 48(b) of the March 2023 IAASB meeting).

the date of approval of the financial statements and extends the assessment through less formal means.

64. The IAASB decided not to limit the requirement in paragraph 7.4.1 to inquiry and discussion, as there may be circumstances where additional procedures are necessary. Also, this could be seen as contrary to the project objectives to strengthen the auditor's evaluation of management's assessment of going concern (see paragraph 62(a)).

Management's assessment period

65. Stakeholders (see paragraphs 15–17) noted that the requirement for an assessment period of at least twelve months from the date of approval of the financial statements may require management to extend its assessment beyond the period required by the applicable reporting framework, particularly for LCEs applying local generally accepted accounting principles. Some stakeholders suggested that the ED-ISA for LCE should not prescribe a minimum assessment period and instead incorporate relevant considerations in EEM or take a risk-based approach whereby the period would be extended only when concerns are identified. Others agreed with the requirement for an assessment period of at least twelve months from the date of approval of the financial statements, while noting that management's assessment is often less formal in an LCE environment (also see paragraph 61).

66. The IAASB considered whether the required period of management's assessment of the entity's ability to continue as a going concern should be different from ISA 570 (Revised 2024) but decided not to do so because:

    (a) In developing ISA 570 (Revised 2024), the timeline over which management's going concern assessment is made was deemed to be a public interest issue, which was addressed by changing the commencement date of the minimum twelve-month period of management's going concern assessment; and

    (b) In many jurisdictions, the approval date of the financial statements of an LCE is often significantly later than the date of the financial statements, thereby making this public interest issue particularly relevant to the typical nature and circumstances of an LCE.

The method, significant assumptions and data used in management's assessment

67. To avoid duplication and recognizing the typical nature of an audit of an LCE, the IAASB considered that a new requirement related to evaluating the method, significant assumptions and data used by management is unnecessary because the auditor could leverage the existing requirements in Part 7 relating to accounting estimates (paragraph 7.4.17). Instead, the IAASB added EEM under paragraphs 7.4.1 and 7.4.4 to highlight that the procedures for accounting estimates may be applied, adapted as appropriate, when relevant.

H. Part 8, *Concluding*

Concluding Activities Related to Fraud

68. ISA 240 (Revised) clarifies the auditor's responses when the auditor determines that the financial statements are materially misstated due to fraud, or when the auditor is unable to obtain sufficient appropriate audit evidence to conclude whether the financial statements are materially misstated due

to fraud. The IAASB considered this enhancement relevant to audits of LCEs and therefore revised paragraph 8.5.11 to align with paragraph 58 of ISA 240 (Revised).

Concluding Activities Related to Going Concern

69. The IAASB enhanced the "Auditor Conclusions" section in ISA 570 (Revised 2024) in relation to evaluation of possible management bias and the adequacy of disclosures. The IAASB considered these enhancements relevant to audits of LCEs and, accordingly, revised paragraphs 8.5.7–8.5.10 to align more closely with paragraphs 30–33 of ISA 570 (Revised 2024). To follow the same improved flow as ISA 570 (Revised 2024), the IAASB:

    (a) Moved paragraph 8.5.10 (now paragraph 8.5.8A) to precede paragraph 8.5.9; and

    (b) Relocated EEM from under paragraph 7.4.4 to under paragraph 8.5.9.

70. The IAASB also added guidance to explain that:

    (a) The auditor's conclusion on whether a material uncertainty exists related to events or conditions is dependent on the auditor's evaluation of management's plans for future actions, including examples of plans for future actions. See EEM under paragraph 8.5.8 which is based on paragraphs A6 and A72 of ISA 570 (Revised 2024); and

    (b) The auditor may determine that additional disclosures are necessary when significant judgments are made by management in concluding that there is no material uncertainty. See EEM under paragraph 8.5.8A which is based on paragraph A75 of ISA 570 (Revised 2024).

I. Part 9, *Forming an Opinion and Reporting*

71. Part 9 presents the reporting requirements using a specified content and format for an unmodified auditor's report, as well as using tables to present requirements related to circumstances that may lead to modification of the auditor's report or opinion, and the text that may be used where modifications occur. The changes in ED-ISA for LCE are consistent with this approach in incorporating revisions from the underlying ISA projects. In particular:

    (a) The specified content and format for an unmodified auditor's report in paragraph 9.4.1 reflects:

        (i) The addition of a separate "Going Concern" section based on paragraph 34 of ISA 570 (Revised 2024). This paragraph requires the auditor to explicitly state that:

            a. The auditor has concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and

            b. The auditor has not identified a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern;

        (ii) Enhancements to the description of the auditor's responsibilities relating to fraud, based on the conforming amendments to paragraph 40 of ISA 700 (Revised)[21] as a result of the revision of ISA 240; and

        (iii) Enhancements to the description of the auditor's responsibilities relating to the statement provided to those charged with governance on compliance with relevant ethical

[21] ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

requirements regarding independence, based on the conforming amendments to paragraph 40(b)(i) of ISA 700 (Revised) as a result of the Listed Entity and Public Interest Entity project.

(b) Requirements relating to modified opinions are addressed in Table C in paragraphs 9.5.17A, 9.5.19–9.5.20A (which are based on paragraphs 36–38 of ISA 570 (Revised 2024)) and in paragraph 9.5.33(b) (which is based on paragraph 19(d) of ISA 705 (Revised)).[22]

J. Other Matters

Maintenance of the ISA for LCE

72. The IAASB is committed to maintaining the ISA for LCE for changes in the business and audit environment. In this regard, the IAASB recognizes that the ISA for LCE has been designed as a standalone standard that achieves reasonable assurance through requirements and EEM that are relevant and proportionate to the typical nature and circumstances of an audit of an LCE.

73. The Maintenance Approach encapsulates the following principles relating to the need to maintain the ISA for LCE in the context of revisions arising from new or revised ISAs:[23]

    (a) Given that the ISA for LCE was designed based on the core requirements and concepts of the ISAs, any public interest issues identified in relation to new or revised ISA(s) would generally be relevant to the ISA for LCE.

    (b) Given that both the ISAs and the ISA for LCE have been designed to achieve reasonable assurance, the work performed by an auditor under the ISA for LCE should continue to be based on the core requirements and concepts of the ISAs.

74. The Maintenance Approach reflects the Board's desire for timely alignment of revisions to the ISA for LCE with revisions to the ISAs rather than adopting an approach of periodic revisions (i.e., resulting in 'packages' of revisions that would become effective every specified number of years, barring any need for urgent intermediate revisions prompted by specific developments in the environment). In considering how best to operationalize this "timely alignment" approach, the IAASB considered:[24]

    (a) Revising the ISA for LCE simultaneously with the revision of the related ISA. This option enables the alignment of the effective dates of the revisions to the ISA and the ISA for LCE but there is a risk that the IAASB will be duplicating its deliberations on certain issues as both standards are developing solutions for the similar issues and have consultations that are closely together.

    (b) Starting with the maintenance of the ISA for LCE when the revision to the ISA is almost finalized. This option allows the maintenance team to leverage the solutions developed during the revisions to the underlying ISA and would avoid redebating issues. Given that the solutions would be already largely developed, revisions to the ISA for LCE would be more focused on applying the design principles for the requirements and EEM of the ISA for LCE and the timeline for maintenance can also be reduced. However, this option would generally result in a one

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

[23] See also paragraph 8 and footnote 4.

[24] Refer to the September 2025 IAASB meeting, Agenda Item 11.

year-later effective date for the revisions to the ISA for LCE compared to the equivalent revisions in the ISA.

On balance, the IAASB concluded that the benefits for commencing the maintenance of the ISA for LCE when the revisions to the ISA are almost finalized outweigh the benefit for aligning the effective dates of the revisions. In making its decisions, the IAASB considered that the gap between the effective dates will be limited and that this time may be used by auditors of LCEs to prepare for the upcoming revisions.

75. During the outreach undertaken supporting the adoption and implementation of the extant ISA for LCE and the development of the ED-ISA for LCE, some stakeholders raised concerns that the maintenance of the ISA for LCE does not adequately recognize the importance of having a stable platform for the ISA for LCE and the standalone nature of the standard. In these stakeholders' view, periodic revisions of the standard would encourage broader adoption and more effective implementation of the ISA for LCE. In addition, these stakeholders highlighted that the IAASB's approach, including the frequency that is driven by the number of ISA projects finalized, and its timing (i.e., commencing a maintenance project when the new or revised ISA(s) is almost finalized) could mean that multiple maintenance projects are performed at the same time. These stakeholders did not question the principles in paragraph 73.

76. To ensure a measured and balanced consideration of relevant factors and consequences (intended and unintended), the IAASB invites views from all stakeholders relating to the matters discussed in this section.

Effective Date

77. The IAASB anticipates that a final revised standard will be approved in **June 2027**, and that it is appropriate for the revised standard to become effective for financial reporting periods beginning on or after approximately 18 months after the approval of proposed ISA for LCE (Revised). The IAASB is of the view that this would provide stakeholders with sufficient time to implement the standard, including adoption and translation by jurisdictions, and incorporating the changes into firm methodologies, enablement tools, and training material.

78. The IAASB also notes that a targeted effective date of around December 2028 would be consistent with its decision to allow for a period of stability of three years from the effective date of the extant ISA for LCE (i.e., December 2025). In addition, the revised ISAs which provide the basis for this first maintenance project (see paragraph 11) become effective two years earlier, in December 2026, which will help stakeholders in implementing the proposed ISA or LCE (Revised).

Section II – Questions for Respondents

79. Respondents are asked to respond to the questions below using the **Response Form** as explained in the **Request for Comments** section of this EM. The questions in the table each requires a direct response on whether you agree with the proposals in ED-ISA for LCE. In each instance where you do not agree, **indicate your reasons, what you propose and why (e.g., an alternative or how proposals could be improved or made clearer).**

Questions for Respondents	Related Section or Paragraphs in this EM
Overall Impact	
1. Do you agree that ED-ISA for LCE appropriately addresses the **relevant public interest issues** related to the underlying ISA projects and satisfies the identified **qualitative characteristics of the Public Interest Framework**? You are invited to include as part of your response insights on the **implications or effects** of implementing the proposed revisions in ED-ISA for LCE.	**Section I-A** and the **Appendix**
Content of ED-ISA for LCE	
2. Provide your views on the proposed revisions to **Parts A, 1–10** (and any related Appendices) in ED-ISA for LCE. In responding to this question: • Please distinguish your comments by using a subheading for each of the Parts or Appendices. The **Response Form** has been set up to facilitate your comments in relation to each Part in ED-ISA for LCE. • Indicate whether the public interest issues identified in the underlying ISA projects are relevant to the ISA for LCE and, if so, whether they are addressed in a proportionate way.	**Section I-B to I-I**
Other Matters	
Maintenance of the ISA for LCE 3. Do you agree with the Maintenance Approach? Please also share your views relating to the frequency and timing of maintenance projects and how the approach could be improved, including, as applicable, how to achieve the appropriate balance between the desire for stability between different versions of the standard and keeping the standard aligned with the core requirements and concepts of the ISAs.	**Section I-J,** paragraphs 72–76
Effective Date 4. The IAASB believes that an appropriate implementation period would be approximately 18 months after the expected date of approval of the proposed revised standard. Do you agree that this will provide a sufficient period to support effective implementation of the proposed revisions to the standard? If not, what do you propose and why?	**Section I-J,** paragraphs 77–78

Questions for Respondents	Related Section or Paragraphs in this EM
Translations	
5. Recognizing that many respondents may intend to translate the final standard for adoption in their own environments, have you identified any potential translation challenges or issues? If so, please describe the issue identified and clearly indicate the specific paragraph numbers of any requirements, EEM, or appendices to which your comments relate.	

Invitation for Field Testing

80. The IAASB did not believe that field testing was needed before approval of ED-ISA for LCE. However, the IAASB recognizes that some practitioners who use the ISA for LCE may choose to undertake field testing to inform their response to ED-ISA for LCE. Field testing may take different forms and may focus on all or certain proposals of ED-ISA for LCE and may be executed at different levels. Field testing is not required in order to respond to ED-ISA for LCE but is recognized in terms of the additional information and different perspectives that may be obtained in this manner. Accordingly, the IAASB welcomes the sharing of the results of any field testing performed with the IAASB as part of the responses to ED-ISA for LCE.

Appendix - Mapping Public Interest Issues of the ISAs Revisions to Key Revisions Proposed to the ISA for LCE

This table in this appendix maps the public interest issues (PII) included in the project proposal of the ISA projects which are in scope of this maintenance of the ISA for LCE project to the key revisions proposed to the ISA for LCE.

1. The column "Description of Key Revisions Proposed" describes the proposed standard-setting actions in ED-ISA for LCE, which are designed to achieve the following qualitative characteristics of the Public Interest Framework (identified as being of most relevance in the project proposal):

   (a) Consistency

   (b) Scope

   (c) Proportionality

   (d) Relevance

   (e) Clarity and conciseness

   (f) Implementability and ability of being consistently applied and globally operable

2. Because these characteristics apply to the ED-ISA for LCE as a whole, rather than to any individual part or requirement(s), they were taken into account in applying the Maintenance Approach as an overall stand-back whether the proposed revisions result in a revised standard that continues to exhibit these characteristics. Accordingly, the characteristics have not been mapped individually to individual proposed revisions.

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)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[25]	Description of Key Revisions Proposed
Roles and Responsibilities of the Auditor on Fraud in an Audit of Financial Statements		
1. The introductory paragraphs in ISA 240 explaining the inherent limitations of an audit can be misleading and result in misunderstanding of the auditor's obligations.	Yes	• In the EEM under paragraph 1.5. the descriptions about inherent limitations of the audit and the auditor's responsibilities are decoupled. The EEM also reinforces that the inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence.
2. A need has been expressed to clarify and emphasize the auditor's responsibilities regarding fraud in an audit of financial statements.	Yes	• The auditor's responsibilities are presented before those of management and TCWG in order to emphasize the auditor's responsibilities (Requirement and EEM related to paragraph 1.5.1).
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.	Yes	• Clarified in the EEM under Part 1.5 how concepts such as bribery and corruption, and money laundering, relate to the definition of fraud for purpose of an audit of financial statements.

25 Unless otherwise stated, if answered yes, the IAASB is of the view that the extant ISA for LCE contains requirements and EEM based on the ISAs requirements that gave rise to this PII. Therefore, the same issue could arise for audit engagements in which the ED- ISA for LCE is applied.

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[25]	Description of Key Revisions Proposed
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.	Yes	• Added EEM under paragraph 7.4.27B describing what forensic skills are and explaining that such skills may be needed when fraud or suspected fraud is identified.
Identifying and Assessing ROMMs Due to Fraud		
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) have not been reflected in ISA 240).	Partly The IAASB considered the enhancements made to ISA 240 (Revised) relating to the internal audit function and whistleblower programs not to be relevant, given the typical nature and circumstances of an LCE. In addition, the EEM in Part A states that the ISA for LCE does not include requirements addressing circumstances in which the auditor intends to use the work of internal	• The requirement relating to retrospective review (paragraph 6.2.4A) was moved from Part 7 to Part 6 to better reflect the nature of the procedure. • Paragraph 6.3.8(b) was revised to align with paragraph 35 of ISA 240 (Revised) by reflecting that auditors are required to obtain an understanding related to journal entries and other adjustments. • Part of paragraph 1.5.1(a) relating to evaluating fraud risk factors was moved to paragraph 6.3.14A to make the flow of the standard more intuitive. • Guidance was added in EEM under Part 6.3 explaining that understanding relevant aspects of the entity assists the auditor in identifying fraud risk factors. • EEM relating to fraud risk factors was added throughout Part 6 (including under paragraphs 6.2.4, 6.3.14A and 6.4.1.) to emphasize what fraud risk factors are and how fraud risk factors relate to and influence the identification of ROMMs due to fraud.

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[25]	Description of Key Revisions Proposed
	auditors, as this would ordinarily not be applicable to an audit of an LCE.	
6. The engagement team discussion is not sufficiently robust with respect to the auditor's considerations of fraud throughout the audit.	Yes	• The EEM under paragraph 5.2.7 was enhanced by including topics that may be discussed when discussing how and where the entity's financial statements may be susceptible to material misstatement due to fraud.
Responses to the Assessed ROMMs due to Fraud		
7. The auditor's responses to the assessed ROMMs due to fraud should be more robust.	Partly The IAASB considered the reference to complex transactions in paragraph 45 of ISA 240 (Revised) not to be relevant to the ISA for LCE. This is consistent with Part A of the ISA for LCE, which indicates that, in an LCE, few accounts or disclosures in the entity's financial statements necessitate the use of significant management judgment in applying the requirements of the	• The procedures for the auditor to address management override of control were enhanced (see paragraph 7.4.6). For example, new requirements and EEM were added about: ○ Obtaining audit evidence about the completeness of the population of journal entries; and ○ Considering the audit evidence obtained from the retrospective review performed.

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[25]	Description of Key Revisions Proposed
	financial reporting framework.	
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 the responsibility to appropriately respond to the assessed ROMMs due to fraud).	Yes	• Enhanced the requirement by adding that the auditor shall obtain written representations from management and, where appropriate, TCWG, about whether they have appropriately fulfilled their responsibilities for the design, implementation and maintenance of internal control to prevent or detect fraud (see paragraph 8.6.1(d)(i)). • No revisions to the EEM in Part 8.6 are proposed, since the extant EEM already adequately clarifies that written representations do not affect the nature or extent of other audit evidence that the auditor obtains about the fulfillment of management's responsibilities or about specific assertions.
Use of Technology		
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. 10. ISA 240 needs to be modernized for the auditor's considerations about how new and evolving technologies, and current practice, impact the auditor's procedures when considering fraud.	Yes	• EEM was added to: ○ Paragraph 6.3.8 to provide guidance on the use of technology by the entity to commit fraud; and ○ Paragraph 8.3.1 to provide an example of how Automated Tools and Techniques (ATT) may be used to determine previously unrecognized ROMM due to fraud.

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[25]	Description of Key Revisions Proposed
Relationship Between and Linkage of ISA 240 With Respect to ISA 250 (Revised)[26] and the Other ISAs		
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).	Yes	• Added EEM under Part 1.5. explaining the auditor's responsibilities related to non-compliance with laws and regulations when fraud or suspected fraud is identified.
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.	No – The ISA for LCE 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 ED-ISA for LCE.	• N/A
Specific Fraud-Related Audit Procedures		
13. Journal entries – uncertainty about how to select which journal entries to test that has resulted in inconsistent application.	Yes	• Added a requirement and EEM in Part 7 (paragraph 7.4.6(a)(iA)) for the auditor to obtain audit evidence about the completeness of the population of journal entries and other adjustments made in the preparation of the financial statements throughout the period.

26 ISA 250 (Revised), *Consideration of Laws and Regulations in an Audit of Financial Statements*

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[25]	Description of Key Revisions Proposed
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. 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.	Yes	• Enhanced the requirement by changing the work effort verb from "evaluate" to "determine" which types of revenue, revenue transactions or relevant assertions give rise to ROMMs due to fraud (see paragraph 6.4.2). • Enhanced the EEM related to paragraph 6.4.2 by providing guidance on when it may, or may not, be appropriate to rebut the presumption of fraud risk in revenue recognition.
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).	No– The IAASB noted that the paragraphs in ISA 240 (Revised) addressing this public interest issue were already appropriately covered in the ISA for LCE.	• N/A
17. Fraud is identified or suspected – lack of clarity around the auditor's response in such circumstances.	Yes	• Added a separate section in Part 7.4 about fraud and suspected fraud. • Added requirements and EEM (see paragraphs 7.4.27A and 7.4.27B) to: ○ Clarify that the auditor is required to obtain an understanding of all instances of identified fraud

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[25]	Description of Key Revisions Proposed
		or suspected fraud in order to determine the effect on the audit engagement; ○ Clarify the engagement partner's responsibilities relating to fraud or suspected fraud that is not clearly inconsequential; and ○ Introduce a threshold in the fraud or suspected fraud requirements allowing the auditor to exclude from further consideration fraud or suspected fraud determined to be clearly inconsequential. • For scalability, presented the above requirements and EEM in a text box with a heading indicating that they apply only if the auditor identifies fraud or suspected fraud. • Enhanced the requirement and related EEM that address the situation when the auditor identifies a misstatement due to fraud by laying out more clearly the auditor's responsibilities (see paragraph 7.5.5). • Enhanced the requirement in paragraph 1.6.2 and related EEM on reporting to an appropriate authority outside the entity as it relates to fraud or suspected fraud. • Moved the specific communication requirements related to fraud and suspected fraud from Part 1 to Part 7 (see paragraphs 7.6.3A–7.6.3C). • Enhanced the requirement (see paragraph 8.5.11) by clarifying the auditor's responsibilities when the

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[25]	Description of Key Revisions Proposed
		financial statements are materially misstated due to fraud or the auditor is unable to conclude in this regard.
18. Unpredictability of audit procedures – unclear as to the required actions or types of fraud-related procedures to be undertaken by the auditor.	Yes	• 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 ROMMs due to fraud at the assertion level.
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.	Yes	• Added EEM under paragraph 7.5.5 explaining that even when an identified misstatement due to fraud is not quantitatively material, it may be qualitatively material.
20. Third party fraud – clarity is needed around the auditor's actions with respect to third party fraud.	Yes	• Added EEM: ○ Under Part 1.5 explaining that the auditor performs procedures if the auditor identifies fraud or suspected fraud committed against the entity by a party external to the entity; and ○ Under paragraph 5.2.7 including a reference to third-party fraud as a topic for the discussion by the engagement team.
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.	Yes	• Moved the specific documentation requirements from Part 1 to Part 7 (see paragraph 7.7.1(h)). • The requirements relating fraud or suspected fraud (see paragraphs 7.7.1(d) and (g)–(h)) were enhanced and a new requirement was added that the results of audit procedures performed, the significant professional

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[25]	Description of Key Revisions Proposed
		judgments made and the conclusions reached with respect to fraud or suspected fraud should be documented.
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.	No – The IAASB noted that the paragraphs in ISA 240 (Revised) addressing this public interest issue were already appropriately covered in the ISA for LCE.	• N/A
Professional Skepticism		
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.	Yes	• Added additional examples in the EEM under paragraph 1.4.5. about the auditor remaining alert throughout the audit to emphasize the need to exercise professional skepticism. • Moved the reference "Unless the auditor has reason to believe the contrary, the auditor may accept records and documents as genuine." from the requirement (paragraph 2.3.3) to the EEM.
Transparency on the Auditor's Fraud-Related Procedures		
24. The required communications with Those Charged with Governance (TCWG) on fraud considerations may not be sufficiently robust in the current environment, including that such	Partly The IAASB considered the enhancements made to ISA 240	• Enhanced requirements and EEM in Part 6 (paragraphs 6.3.1 and 6.3.3) relating to inquiries of management and, where appropriate, TCWG about

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[25]	Description of Key Revisions Proposed
communications relating to fraud matters are not presently explicitly required throughout the audit.	(Revised) relating to the inquires of individuals in the internal audit function not to be relevant, given the typical nature and circumstances of an LCE.	certain fraud related matters when obtaining an understanding of the entity's system of internal control. • Aligned the specific communication requirements in Part 7 ("*Specific Communications in Relation to Fraud*" section) with new requirements on fraud or suspected fraud in Part 7.4.
25. The auditor's report may not be transparent enough about the auditor's fraud-related responsibilities and procedures.	Partly The IAASB considered that the requirements relating to listed entities are not relevant to the ISA for LCE, as listed entities are excluded from using the standard.	• Enhanced the illustrative auditor's report in paragraph 9.4.1 which now better articulates the auditor's responsibilities about the communications made to management, and where appropriate, TCWG as it relates to fraud.

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

Public Interest Issues (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[10]	Description of Key Revisions Proposed
Risk Identification and Assessment		
26. ISA 570 (Revised) does not reflect the more robust risk identification and assessment process	Partly	• Added paragraph 6.2.1(aA), which requires the auditor to design and perform procedures to obtain audit

Public Interest Issues (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[10]	Description of Key Revisions Proposed
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	Because the ISA for LCE is structured to follow the flow of the audit and is presented as a single standard, the enhancements made in ISA 570 (Revised 2024) to clarify the linkages with ISA 315 (Revised 2019) are not necessarily needed in the ISA for LCE.	evidence that provides an appropriate basis for determining whether events or conditions have been identified. As a result, paragraph 6.2.4(c) was considered redundant and was removed. • Added requirements in Part 6 for the auditor to obtain an understanding of: ○ The applicable financial reporting framework to include an understanding of the requirements of the applicable financial reporting framework relating to going concern, and the related disclosures that are required to be included in the entity's financial statements (paragraph 6.3.5(a)(ii)); and ○ How disclosures related to the entity's ability to continue as a going concern are addressed (paragraph 6.3.8(cA)). • Added EEM in Part 6: ○ Under paragraph 6.2.1 explaining that the identification of events or conditions is performed before considering any related mitigating factors included in management's plans for future actions; ○ Under Part 6.3 explaining that understanding relevant aspects of the entity assists the auditor in identifying events or conditions; and ○ Under paragraph 6.3.1 explaining that inquiries may assist the auditor in understanding how

Public Interest Issues (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[10]	Description of Key Revisions Proposed
		TCWG exercise oversight over management's assessment of the entity's ability to continue as a going concern. • Added Appendix 4A providing examples of events or conditions.
Timeline Over Which the Going Concern Assessment is Made		
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. 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 applicable financial reporting framework need to be taken into account.	Yes	• Added a new requirement in paragraph 7.4.1A requiring the auditor to request management to make an assessment of the entity's ability to continue as a going concern covering a period of at least twelve months from the date of approval of the financial statements. • Added EEM under paragraph 7.4.1A emphasizing that the level of detail and formality of management's update to extend its assessment may vary from entity to entity and that, for LCEs, management may often be able to update its assessment through less formal means.

Public Interest Issues (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[10]	Description of Key Revisions Proposed
Information from Sources external to the Entity		
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. 30. It is unclear when it is appropriate to use information from a third-party when obtaining evidence of financial support.	Yes	• The requirement in paragraph 7.4.4 was enhanced to require the auditor to evaluate management's plans for future actions in relation to its going concern assessment, if events or conditions have been identified. • Added a new requirement in paragraph 7.4.4A for the auditor to obtain audit evidence about the intent and ability of a third or related party, including the entity's owner-manager, to maintain or provide financial support when the entity is dependent on such support. • Moved EEM from under paragraph 7.4.1 to paragraph 7.4.4A explaining matters to consider when the entity is dependent on the support from owner-managers.
Terminology		
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.	Yes	• Included the definition of 'Material uncertainty (related to going concern)' in the glossary of terms in Appendix 1 of the ED- ISA for LCE, with supporting EEM included in the second paragraph of the EEM under paragraph 8.5.8.

Public Interest Issues (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[10]	Description of Key Revisions Proposed
Audit Techniques – Use of Technology		
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.	Yes	• Added EEM under paragraph 7.4.17 providing examples of ATT that may be used when testing significant assumptions or data. This includes significant assumptions or data related to going concern.
Management's Assessment of Going Concern		
33. ISA 570 (Revised) does not reflect the more robust concepts in ISA 540 (Revised) 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.	Yes	• Enhanced the requirement for the auditor to design and perform audit procedures to evaluate management's assessment of the entity's ability to continue as a going concern (paragraph 7.4.1) by clarifying management's assessment will include significant judgments by management. • Enhanced the requirement for the auditor to inquire of management as to its knowledge of events or conditions beyond the period of management's assessment (paragraph 7.4.3) by adding a conditional requirement that, if management or the auditor identifies such events or conditions, the auditor is required to request management to evaluate their potential significance. • Added a requirement that applies if the auditor identifies events or conditions that management has not previously identified or disclosed to the auditor (see paragraph 7.4.3A).

Public Interest Issues (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[10]	Description of Key Revisions Proposed
		• For scalability, presented the requirements and EEM that apply if the auditor identifies events or conditions in a text box with a heading indicating that they only apply if the auditor identifies events or conditions (see requirements and EEM related to paragraphs 7.4.3A–7.4.4A). • Added EEM under paragraph 7.4.1: ○ Referring to paragraph 7.4.17 (i.e., the requirement relating to testing how management made the accounting estimate) when evaluating the method, significant assumptions, and data used by management in assessing the entity's ability to continue as a going concern; and ○ Explaining what is meant by the term 'method' in the context of the standard. • Added specific documentation requirements in Part 7 to promote consistent practice and behavior (paragraph 7.7.4A) and added a documentation requirement in Part 8 (paragraph 8.9.1(c)) relating to the auditor's determination of the adequacy of management's disclosures in the financial statements related to going concern. • Added and enhanced requirements in Part 8 to strengthen the written representation to be obtained from management, reflecting the more robust approach in the standard to evaluating management's assessment (paragraph 8.6.1(m)).

Public Interest Issues (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[10]	Description of Key Revisions Proposed
		Consequently, enhanced the illustrative representation letter in Appendix 7 to reflect the enhanced written representation requirements. • Added EEM to paragraph 8.5.8A to further clarify the requirement related to whether the financial statements provide adequate disclosures about the identified events or conditions. • Clarified paragraph 8.5.9 regarding the adequacy of disclosures when a material uncertainty exists.
Professional Skepticism		
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.	Yes	• New requirements were added to paragraph 8.5.7 requiring the auditor to: ○ Evaluate whether the judgments and decisions made by management in making its assessment of going concern, even if individually reasonable, are indicators of possible management bias. ○ Consider all audit evidence obtained when concluding on the appropriateness of management's use of the going concern basis of accounting.

Public Interest Issues (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[10]	Description of Key Revisions Proposed
Transparency About the Auditor's Responsibilities and Work Related to Going Concern		
35. The communication with TCWG on going concern may not be sufficiently robust, including that such communication may not always occur on a timely basis throughout the audit.	Yes	• Added EEM under paragraph 6.4.8 explaining that the auditor's evaluation of the procedures to identify and assess ROMM may indicate the existence of events or conditions that management has not previously identified or disclosed to the auditor. • Strengthened the communication requirements with TCWG (paragraph 8.8.3) to enhance transparency and timely communication when events or conditions have been identified.
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).	Yes	• Enhanced the requirement in paragraph 1.6.2. relating to reporting to an appropriate authority outside the entity, to include the requirement related to going concern. • Added a requirement (paragraph 1.4A.1) about the auditor's responsibilities related to going concern. This requirement mirrors and precedes a similar requirement for fraud. • The EEM under Part 1.4A explains that the preparation of general purpose financial statements requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.

Public Interest Issues (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[10]	Description of Key Revisions Proposed
37. The auditor’s report may not be sufficiently transparent with respect to the auditor’s responsibilities and work related to going concern. 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”.	Partly The IAASB considered that the requirements relating to listed entities are not relevant to the ISA for LCE, as listed entities are excluded from using the standard.	• In the specified format and content of the auditor’s report in Part 9.4. ○ Added explicit statements about going concern in a separate section of the auditor’s report when the going concern basis of accounting is appropriate and no material uncertainty exists; and ○ Added a footnote indicating that, when significant judgments are made by management in concluding that no material uncertainty exists, the auditor may decide to include: ▪ A reference to the related disclosure(s) in the financial statements, if any; and ▪ A description of how the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern. • In Part 9, strengthened the requirements to include additional statement in the auditor’s report, when adequate disclosure of a material uncertainty is made in the financial statements (paragraph 9.6.6), or when adequate disclosure of a material uncertainty is not made in the financial statements (paragraph 9.5.19).

Public Interest Issues (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[10]	Description of Key Revisions Proposed
		• Added requirements in Part 9 (paragraphs 9.5.17A and 9.5.20A) 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 or express an adverse opinion, unless required by law or regulation. • Clarified that, in the Basis for Disclaimer of Opinion section of the auditor's report, the auditor is required to state that the auditor is unable to conclude on the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and whether a material uncertainty exists related to events or conditions (paragraph 9.5.33(b)).

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

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[10]	Description of Key Revisions Proposed
39. Increased complexity and inconsistent application and understanding when concepts across the IAASB and IESBA standards differ, including	Yes	• In Part A, replaced the term "listed entity" with "publicly traded entity" and added EEM clarifying that legislative or regulatory authorities, or relevant local bodies with

Public Interest Issue (PII)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[10]	Description of Key Revisions Proposed
when there is misalignment in the types of entities to which differential requirements apply.		standard-setting authority, may define more explicitly a publicly traded entity in a specific jurisdiction (see paragraphs A.1(b) and A.2, EEM under paragraph A.2 and "Qualitative Characteristics" section).
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: (a) The need to maintain the relevance, robustness, proportionality and scalability of the ISQMs and ISAs. (b) Increased complexity if there are too many differential requirements for certain entities. (c) The heightened expectations of stakeholders regarding the performance of audit engagements for certain entities.	Partly The IAASB considered that the requirements relating to listed entities are not relevant to the ISA for LCE, as listed entities are excluded from using the standard.	• Added a requirement in Part 1 (paragraph 1.8.2(b)) to address the revision in paragraph 18 of ISA 260 (Revised) to explicitly communicate to TCWG about compliance with relevant ethical requirements regarding independence. This requirement in ISA 260 (Revised) now applies to all audit engagements and not only to audits of listed entities.

Table D: Public Interest Issues 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)	Is the PII relevant to the specific nature and circumstances of an LCE? and Rationale[10]	Description of Key Revisions Proposed
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.	Yes	• Requirements were added in Part 5 (paragraphs 5.2.11(f) and 5.2.12A) to maintain the interoperability of the standard with the IESBA Code related to using the work of an external expert.

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