U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

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Mr. Jasper van den Hout
Director
International Auditing and Assurance Standards Board
529 5th Avenue
New York, NY 10017

GAO's Response to the International Auditing and Assurance Standards Board's July 2026 Exposure Draft, Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (Revised)

Dear Mr. van den Hout:

This letter provides GAO's comments on the International Auditing and Assurance Standards Board's (IAASB) *Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (Revised)* (ISA for LCE). GAO promulgates generally accepted government auditing standards, which provide professional standards for auditors of government entities in the United States.

We support the IAASB's efforts to update and maintain the ISA for LCE for developments arising from new or revised International Standards on Auditing (ISA). We believe that the proposed revisions are generally relevant to the typical nature and circumstances of a less complex entity and are proportionally aligned with the core requirements and concepts of the ISAs. In our response, we identified potential edits and suggested further guidance to better ensure that the public interest issues identified for the relevant ISA projects are appropriately addressed in the ISA for LCE.

Thank you for the opportunity to comment. If you have questions about this letter or would like to discuss any of our responses, please contact me at dalkinj@gao.gov.

Sincerely,

//SIGNED//

James R. Dalkin
Director
Financial Management and Assurance

Enclosure

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Responses to the International Auditing and Assurance Standards Board's Part B Questions in Explanatory Memorandum, Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (Revised) (ED-ISA for LCE)

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.

Except as noted below, we believe that the ED-ISA for LCE generally addresses the relevant public interest issues related to the underlying ISA projects.

2.1 Provide your views on the proposed revisions to Part A, Authority of the ISA for LCE. Please also share your views on 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.

We support the proposed revisions with no further comments.

2.2. Provide your views on the proposed revisions to Part 1, Fundamental Concepts, General Principles and Overarching Requirements. Please also share your views on 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.

We support the proposed revisions with no further comments.

2.3. Provide your views on the proposed revisions to Part 2, Audit Evidence and Documentation and Part 3, Engagement Quality Management. Please also share your views on 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.

We believe that the proposed revisions to parts 2 and 3 are generally appropriate. However, we note an inconsistency between ISA 240 (revised) and proposed ISA for LCE paragraph 2.3.3. In the extant and proposed ISA for LCE standard, there is a requirement that states "If conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document have been modified but not disclosed to the auditor, the auditor shall investigate further and *determine the effect on the rest of the audit evidence obtained*." The requirement to "determine the effect on the rest of the audit evidence obtained" is not in the revised ISA 240. We suggest that the International Auditing and Assurance Standards Board (IAASB) consider whether it is appropriate for the ISA for LCE to require additional work that is not required in an audit of financial statements conducted under the ISAs.

2.4. Provide your views on the proposed revisions to Part 5, Planning. Please also share your views on 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.

We support the proposed revisions with no further comments.

2.5. Provide your views on the proposed revisions to Part 6, Risk Identification and Assessment. Please also share your views on 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.

We support the proposed revisions concerning the risk of material misstatements due to fraud in revenue recognition with no further comments. However, we believe that the proposed new paragraph at the end of the essential explanatory material following paragraph 6.3.1 could be clarified as follows (suggested text underlined):

> *Unless all those charged with governance are involved in managing the entity, extending inquiries about the basis for the intended use of the going concern basis to those charged with governance may assist the auditor in understanding how those charged with governance exercise oversight over management's assessment of the entity's ability to continue as a going concern.*

2.6 Provide your views on the proposed revisions to Part 7, Responding to Assessed Risks of Material Misstatement. Please also share your views on 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.

We support the proposed revisions in part 7. However, we suggest an edit to paragraph 7.4.27B to more closely match the related requirement in ISA 240 paragraph 55, as follows (suggested text underlined):

> *7.4.27B Except for fraud or suspected fraud determined by the auditor to be clearly inconsequential based on the procedures performed in paragraph 7.4.27A, the engagement partner shall…*

2.7. Provide your views on the proposed revisions to Part 8, Concluding. Please also share your views on 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.

In general, we believe that the proposed revisions are consistent with the related ISA and thus address the public interest issues identified. However, we do not believe that the proposed changes in ISA for LCE paragraph 8.6.1(d)(i), which also corresponds to an edit in appendix 7, address Public Interest Issue 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 risks of material misstatement due to fraud).").

The proposed revision to ISA for LCE paragraph 8.6.1(d)(i) would have management represent that, with respect to fraud, "they [management] acknowledge their responsibility for the design, implementation and maintenance of controls to prevent and detect fraud and have appropriately fulfilled those responsibilities." We acknowledge this proposed revision is consistent with ISA 240 (Revised). However, we do not believe that this change will address the public interest issue.

It is unclear how a representation from management that it has appropriately fulfilled its responsibilities for the design, implementation, and maintenance of controls to prevent and detect fraud affects an auditor's reliance on written representations. What new or revised procedure is an auditor expected to perform to develop audit evidence that supports or refutes this revised representation? Without clarification, we believe that the added clause will have no effect on auditor behavior and may even have the potential to increase the auditor's reliance on management representations, which is contrary to the identified public interest issue.

We suggest that the IAASB revisit whether this proposed revision addresses the identified public interest issue and, if so, whether additional guidance is needed to elaborate on how an auditor should respond to reduce inappropriate reliance on written representations.

2.8. Provide your views on the proposed revisions to Part 9, Forming an Opinion and Reporting. Please also share your views on 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.

We support the proposed revisions with no further comments.

2.9. Provide your views on the proposed revisions to Part 10, Audits of Group Financial Statements and Appendices. Please also share your views on 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.

We support the proposed revisions in general, though we note any actions to address our response to question 2.7 may affect appendix 7, Illustrative Representation Letter, as well.

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.

We support the Maintenance Approach and have no further comments.

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?

We do not offer a response to this question.

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, essential explanatory material, or appendices to which your comments relate.

We do not offer a response to this question.