PROPOSED PART 10, AUDITS OF GROUP FINANCIAL STATEMENTS OF THE PROPOSED ISA FOR AUDITS OF FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES

A consultation submission from
The Association of Practising Accountants

1. Introduction

We welcome the opportunity to respond to the IAASB consultation on the audit of less complex entities. By way of introduction The Association of Practicing Accountants (APA) is a group of 20 leading professional service firms with a combined turnover of £600m of which £125m comes from audit fees. In the UK we advise and audit well over 14,000 businesses across the real economy from SMEs to the AIM market. While a number of our Member firms are also engaged in the PIE audit market our main focus is on the audit of smaller entities.

2. General observations

Less complex entities (LCEs) form a significant proportion of the UK economy as well as being drivers of jobs and growth. It is important that these entities are able to demonstrate a true and fair view, not just at the micro level where this will be important in terms of securing finance but at the macro level where they are an important component of the real economy.

LCE's are distinct from larger, more complex listed entities in terms of size and the systemic risk they pose. They are also managed and controlled differently and should not be thought of as smaller PIEs. The same analysis extends to less complex groups.

We are therefore pleased to see that the IAASB has decided to amend the Authority to include Group audits and have issued this Exposure Draft on the proposed addition of Part 10 on the requirements specific to Groups.

Many group entities are not complex and neither are their audits. However, while the proposed amendment to the authority now includes some groups, we believe it is still too restrictive and will exclude a number of groups which are genuinely less complex. We have suggested how this issue may be addressed more effectively in our detailed comments below.

We understand that the IAASB are amending other parts of this standard, on which it is not consulting. We hope that these amendments will address a number of concerns raised, in particular with regard to part 6, where a number of requirements are retained from other ISA's which are not relevant to Less Complex Entities (LCE's).

We are pleased the IAASB have continued with this work. It is an important area and we support the organisation in moving forward with the LCE Standard.

Responses to specific questions:

1. In the Authority, do you agree with the proposed prohibition on the use of the proposed ISA for LCE for group audits where component auditors are involved, other than in limited circumstances where physical presence is required?

We believe the proposed restriction is currently too narrow and will still exclude a number of less complex groups. The examples provided are too restrictive and should be broadened to include at least the following:

(a) Inspect documents

(b) Carry out specific audit procedures not amounting to a full-scope audit.

We understand that if there were no restriction on the use of component auditors then there could be a perception that a number of additional requirements from ISA600 would need to be included within the ISA for LCE. We do not believe the addition of the 2 examples noted above would require any amendments to the requirements currently included within the current proposed part 10.

2. In the Authority, do you agree with the proposed group-specific qualitative characteristics to describe the scope of group audits for which the proposed ISA for LCE is designed to be used?

The proposed examples provided are too restrictive and, in practice, regulators are likely to interpret them as requirements from which practitioners would then need to justify a departure.

We do not believe the number of entities is something that should be restrictive. There are many groups which will have a high number of group entities whilst remaining less complex, the group size being purely for risk management purposes (e.g. property companies separate entities for different developments). Neither the entities nor the consolidation will necessarily be complex.

In addition, many less complex groups may have a significant number of dormant entities for which an audit is still required due to local regulations.

Similarly, an entity operating across more than 3 jurisdictions might not necessarily be more complex, particularly if those jurisdictions allow freedom in choosing what reporting framework to adopt and may in fact have other similarities to neighbouring jurisdictions (eg. the Channel Islands).

One way to address this could include adding "less complex groups with business operations that display a level of homogeneity may operate in more than 3 jurisdictions or have more than 5 business units".

We also believe that the requirement for consistency in accounting policies across the group is too restrictive. Most less complex entities will use local GAAP rather than IFRS.   While there may be some differences in the accounting policies here, these differences are often not significant and the global profession is well accustomed to them.

A further example is a UK charity with a trading subsidiary. There are specific differences due to the existence of a Statement of Recommended Practice for charities, but this statement is based on FRS 102 (UK GAAP) and indeed directly refers to the standard in a number of areas.

Additionally, non-coterminous year ends do not always increase complexity.

3. Do you agree with the content of proposed Part 10 and related conforming amendments?

Overall, we agree with much of the content of the proposed part 10 and related conforming amendments. We note however, that the changes for the audit report are achieved with the use of footnotes, which are often overlooked and would therefore recommend the content should be included within the body of the report where appropriate.

Martin Muirhead
Chairman
Association of Practicing Accountants
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