

May 1, 2023

SENT ELECTRONICALLY

International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY 10017

Re: Exposure Draft: Proposed Part 10, Audits of Group Financial Statements of the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE) and Proposed Conforming Amendments

Thank you for the opportunity to provide input to the International Auditing and Assurance Standards Board on the above noted document.

MNP LLP ("MNP") is one of Canada's largest chartered professional accountancy and business advisory firms. Our client base is focussed on small to mid-size businesses covering a broad range of industries including agriculture, retail, and manufacturing as well as pension plans, credit unions, co-operatives, Indigenous communities and businesses, medical and legal professionals, not-for-profit organizations, municipalities, government entities, and publicly traded companies. We believe that we are positioned well to provide feedback on this exposure draft ("ED").

We have reviewed the ED and have provided our comments below. Both ourselves and our clients feel that the ISAs are increasing less suitable for the vast majority of our small and medium sized private entity clients. In our view, the ISA for LCE should be the predominant standard for our client base. Aside from consideration of suitability, we feel this shift is necessary for cost and availability of assurance capacity in the profession today and increasingly so as ESG assurance requirements grow. Accordingly, we support the IAASB's decision to include audits of group financial statements in the scope of ISA for LCE to expand the usage of ISA for LCE. We believe that having a separate part for audit of group financial statements will reduce the amount of unnecessary information that auditors of non-group LCEs will have to filter through when using the standard. While we agree with the inclusion of audit of group financial statements, it is our view that the Authority of ISA for LCE should not prohibit the use of component auditors. Our explanations are included below.

We would also like to bring to the attention of the IAASB the need for the Authority to permit the use of ISA for LCE when an entity adopts integrated reporting for any future ESG obligations. We believe that integrated reporting would not increase the complexity of an entity.

Question 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 do not agree with the proposed prohibition where component auditors are involved. We believe the use of component auditors does not necessarily reflect an increase the complexity of the entity. The decision to use or not component auditors may be driven by the structure and locations of the auditor's firm rather than by the characteristics of the entity. One example requiring specific consideration is the increasing use of remote

and hybrid work arrangements by small firms. This may result in one 'office' managed as a single team but spread over many physical locations, timezones or countries. Different firms may structure this as either one or multiple component teams. Excluding component auditors broadly may result in ineligibility of LCE for certain firms but not others creating unnecessary variability and lack of comparability for both auditors and their clients.

In addition, the IAASB should consider clarifying the definition of component auditor directly within the EEM including consideration of remote work arrangements.

The Authority provides examples of where physical presence is required. However, we believe that there are other circumstances where the use of component auditors is not an indicator of complexity. As an example, Canada has two official languages. A component auditor fluent in another language may be beneficial to reduce translation costs, improve client service or manage the confirmation process and follow-up procedures with customers or suppliers. Component auditors may also be helpful for supplementary skillsets such as testing discrete controls within an operation or specified procedures. These circumstances do not increase the complexity of the entity.

Furthermore, the Authority currently prohibit the proposed ISA for LCE for group audits where any of the group's individual entities or business units meet the criteria as described in paragraph A.1. (b) or A.1. (c). As some small and non-complex not-for-profit may have public interest, potential group audits of LCE may be excluded from the ISA for LCE. IAASB should consider modifying this prohibition to specify that the ISA for LCE shall not be used if the audit is an audit of group financial statements (group audit) and any of the group's significant individual entities or business units meet the criteria as described in paragraph A.1. (b) or A.1. (c). As part of Part 10, the group auditor shall establish the scope, timing and direction of the group audit. Therefore, the auditor may decide to perform limited audit work for some of the entities and therefore prohibitions should not be applied.

Question 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?

Generally, we support the proposed group-specific qualitative characteristics as described in the Authority of the ISA for LCE. However, we believe that the proposed characteristics, as currently written, could lead to inconsistencies in application from the stakeholders, creating confusion in the practice on when ISA for LCE can or can not be used. We suggest the following clarifications to promote quality and consistency across auditors.

Group Structure and Activities

The description refers to few entities or business units. However, the number of legal entities should not matter in the decision, and the auditor should rather understand the number of components the group has. For example, the group may have multiple legal entities, but a single or small number of components. We suggest that the description be reworded to refer to number of components rather than legal entities.

Consolidation process

Examples are provided to help auditors evaluate the complexity of the group audit. However, it is not clear if professional judgement should be applied when evaluating these examples, or if the auditor shall conclude

that the group audit is deemed complex as soon as one of the examples has not been met. We believe that professional judgment must be applied, as some of the examples provided may not always increase the level of complexity.

The first example is the requirement for the financial information to be prepared in accordance with the same accounting policies for all entities or business units. However, when the group includes entities in multiple jurisdictions, it is possible to find small differences in the accounting policies of the different components as some policies may not be accepted in all jurisdictions. In these cases, management prepares a simple reconciliation to apply the group accounting policies to the financial information from all components. In this example, we believe that the different accounting policies at the component level should not be considered as complex and should not prohibit the auditors to perform the audit engagement under ISA for LCE.

Furthermore, we do not believe that sub-consolidations should prohibit the use of ISA for LCE. The Authority already prohibits the use of the standard in case of large audit group, and therefore we believe that the sub-consolidations that remains will be simple.

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

We agree with the content of proposed Part 10 and related conforming amendments. We believe that Part 10 as drafted is coherent with the revised ISA 600 and will provide the necessary requirements for auditors to report on group audits.

We would be pleased to offer assistance to the IAASB in further exploring issues raised in our response or in finding alternative solutions.

Yours truly,

MNP LLP

Dana Ray

Dana Ray, CPA
Partner, Assurance Professional Standards Group