

# Joint submission by Chartered Accountants Australia and New Zealand and The Association of Chartered Certified Accountants

2 May 2023

To: Mr Thomas R. Seidenstein  
The Chairman  
International Auditing and Assurance Standards Board  
529 5th Avenue 6th Floor  
New York 10017  
United States of America

Submission via IAASB website

## **Submission on IAASB's 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 and Consequential Amendments to Other ISAs**

This submission is made jointly by Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA) under our strategic alliance.

ACCA and CA ANZ created a strategic alliance in June 2016, forming one of the largest accounting alliances in the world. It represents 870,000 current and next generation accounting professionals across 179 countries and provides a full range of accounting qualifications to students and business. Together, ACCA and CA ANZ represent the voice of members and students, sharing a commitment to uphold the highest ethical, professional and technical standards. More information about ACCA and CA ANZ is contained in Appendix B.

### **General comments**

We welcome the opportunity to comment on the proposed Part 10 of the IAASB's proposed ISA for LCE. We commend the IAASB for responding to the feedback from the ED on ISA for LCE that group audits should be consulted upon further, and as a result amending the scope in the draft ISA for LCE to include audits of group financial statements. We believe that scoping the audits of less complex groups into ISA for LCE will result in wider adoption of the standard. However, as we note in our response to Q1, we do have some concerns with the exclusion of less complex groups which require component auditors, other than in limited circumstances, as we believe this will limit the number of less complex groups able to apply the standard which could, in turn, hamper the adoption of the standard.

Our responses to the specific questions for comment raised in the ED follow in Appendix A. Should you have any queries about the matters in this submission, or wish to discuss them in further detail, please contact Melanie Scott, Senior Policy Advocate at CA ANZ via email; [melanie.scott@charteredaccountantsanz.com](mailto:melanie.scott@charteredaccountantsanz.com) and Antonis Diolas, Head of Audit and Assurance at ACCA via email: [antonis.diolas@accaglobal.com](mailto:antonis.diolas@accaglobal.com).

Yours sincerely

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## Appendix A

### IAASB 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?**

While we understand that there needs to be clear guidance to assist practitioners in forming their professional judgement as to whether a group is complex, we believe that the proposed prohibition on the involvement of component auditors, other than where physical presence is required to perform specific audit procedures, is too strict and will exclude too many less complex groups from the scope of the standard. As demonstrated by the feedback on group engagements received in response to the exposure draft on the proposed ISA for LCEs, not being able to use the standard for group engagements would be a disincentive to many practitioners and may have a significant negative impact on the adoption of the standard.

While the use of a component auditor adds some additional administrative complexity for the auditor, it isn't necessarily an indication of complexity of the entity or the group itself. The proposed additional qualitative characteristics for groups recognises that a group can have operations in several jurisdictions and still be "less complex". Similarly, in jurisdictions that are large geographically, such as Australia, the group may have entities that are geographically distant but still in one jurisdiction. Given the most likely users of ISA for LCEs are SMPs who do not necessarily have operations in multiple jurisdictions or geographic locations, the use of component auditors will often be necessary for group engagements, as it is often more cost effective than the group audit team having to travel to component entities. The local knowledge of the entity that a local component auditor brings to the engagement may also improve audit quality. We also have concerns about potential misuse of the standard in circumstances where component auditors should be used but are not to enable the engagement to remain within the scope of the standard.

Following the public consultation of the ED-ISA for LCE and more specifically during the September 2022 meeting, the Board generally supported the proposed changes to the draft Authority which included the use of language reflecting the ability for regulatory authorities to determine quantitative thresholds for their jurisdiction, and agreed to explain how quantitative indicators were considered during the development of the proposed standard<sup>1</sup>. These changes already narrow the scope of the standard from what was presented in the ED. Therefore, the only groups that will be eligible to use ISA for LCE after applying the general provisions of the Authority and the specific group qualitative characteristics will be small, less complex groups where use of a component auditor will not be complex.

We therefore believe that the group qualitative characteristics included in the Authority should be sufficient for practitioners to determine whether a group is less complex. It may be

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<sup>1</sup> <https://www.iaasb.org/flysystem/azure-private/meetings/files/IAASB-September-2022-Meeting-Highlights-Final.pdf>

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appropriate to include some considerations on use of component auditors, but the proposed prohibition is too strict and should be removed.

Our stakeholders also questioned whether there is a need for guidance where a parent company auditor uses full ISAs, but the component auditor uses ISA for LCE for their audit for statutory purposes. Some of the concerns raised included whether the parent auditor would need to request additional procedures to ensure full ISA compliance and would additional wording be required in the group audit report.

### **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?**

We largely agree with the proposed group-specific qualitative characteristics, however it needs to be made clear that they are guidance and that ultimately determination of whether the group is less complex is a matter of professional judgement by the auditor. This also applies to the use of quantitative characteristics in A3. As the standard is focused on the complexity of the entity, rather than the size of the entity, it needs to be clear that any suggested quantitative thresholds are guidance only.

In relation to the specific proposed characteristics:

#### **Group Structure and Activities**

We agree that the group structure and activities are appropriate qualitative characteristics to describe the scope of group audits for which the proposed ISA for LCE is designed to be used.

#### **Access to Information or People**

We agree that the group auditor needs to consider whether accessing the information and people within the group will add complexity to the engagement. We understand that, in many group engagements, access to information and people can add complexity, particularly when the numbers of entities, locations or jurisdictions grows or where a group operates in a number of industries or segments. In the case of LCE who meet the requirements of the authority of ISA for LCE, however, that will usually not be the case. For example, in some industries like the shipping industry multiple special purpose vehicle entities may be set-up i.e., to own a ship, however, ultimately the structure may not be complicated.

#### **Consolidation process**

We agree that the group auditor needs to consider the complexity of the consolidation process.

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

We agree with the content of the proposed Part 10 and related conforming amendments. However, if the prohibition against the use of component auditors is removed, Part 10 will

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need to include requirements in relation to how the group auditor will interact with the component auditor and the respective responsibilities of the group auditor and the component auditor.

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## Appendix B

### About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 135,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live.

Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations.

We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 13 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.



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## About ACCA

ACCA is the Association of Chartered Certified Accountants. We're a thriving global community of 241,000 members and 542,000 future members based in 178 countries that upholds the highest professional and ethical values.

We believe that accountancy is a cornerstone profession of society that support both public and private sectors. That's why we're committed to the development of a strong global accountancy profession and the many benefits that this brings to society and individuals.

Since 1904 being a force for public good has been embedded in our purpose. And because we're a not-for-profit organisation, we build a sustainable global profession by re-investing our surplus to deliver member value and develop the profession for the next generation.

Through our world leading ACCA Qualification, we offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. And using our respected research, we lead the profession by answering today's questions preparing us for tomorrow.

Find out more at [www.accaglobal.com](http://www.accaglobal.com)



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