

May 2, 2023

Mr. Willie Botha
Technical Director
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 (ISA) for Audits of Financial Statements of Less Complex Entities (Exposure Draft or Proposed Part 10)*

Dear Mr. Botha:

The American Institute of Certified Public Accountants (AICPA) Auditing Standards Board (ASB) is pleased to respond to the International Auditing and Assurance Standards Board's (IAASB) above referenced Exposure Draft. The responses provided in this letter are from the perspective of an audit of the financial statements of a less complex non-issuer in the United States of America consistent with the mission of the ASB.

We¹ appreciate the opportunity to help inform the IAASB's standard-setting process and are always in support of standard-setting and non-authoritative guidance that assists auditors in performing high quality audits of non-issuers. As communicated in our January 31, 2022 comment letter² on the exposure draft of the proposed ISA for LCE, we strongly support the IAASB's efforts to address the challenges of applying the ISAs in audits of LCEs and more broadly to address the complexity, understandability, scalability, and proportionality (CUSP) of the ISAs.

We appreciate the IAASB considering stakeholder feedback and reconsidering its decision to exclude group audits from the proposed ISA for LCE and developing a proposal that addresses audits of less complex groups. Our responses to the IAASB's Request for Specific Comments in the Exposure Draft are presented in the Appendix to this letter.

In addition to our responses in the Appendix to this letter, we wanted to bring some key concerns to the IAASB's attention, as follows:

Lack of Availability of Current Working Draft of the ISA for LCE

In considering the proposed Part 10, respondents' understanding of the proposal would have been enhanced if the entire current draft of the proposed ISA for LCE had been made available for consideration (if not comment). For example, while the summary of changes that the IAASB has made thus far to the Authority since ED-ISA for LCE is helpful, it would have been significantly more helpful if the entire text of the revised Authority was presented – in track changes from ED-ISA for LCE.

¹ References to "we," "our," or "us" refer to the AICPA's ASB and not to the AICPA as a whole or to members or member firms.

² See [Auditing Standards Board's January 31, 2022 comment letter](#).

IAASB’s Plan with Respect to Potential Re-exposure of ED-ISA for LCE

We noted the statement in paragraph 7 of the explanatory memorandum which states “The IAASB plans to approve the ISA for LCE at its December 2023 meeting.” We interpret this statement to mean that the IAASB does not see a need to expose the complete revised proposed ISA for LCE for additional comment.

While we can accept that the IAASB does not see a need to expose the full revised proposed ISA for LCE for additional comment, we strongly urge the IAASB to expose significant changes to the ED-ISA for LCE along with the changes to the Authority Document. The exposure draft could be structured in a manner similar to how the IAASB Task Force presented Agenda item 6-A as part of the material presented for the IAASB’s March 2023 meeting.³ Based on our understanding of the nature and significance of the revisions to ED-ISA for LCE, the significant changes to ED-ISA for LCE should be exposed for the following reasons:

- Without exposure of the significant changes to ED-ISA for LCE, due process will not have been followed. Several public comments were made when the ED-ISA for LCE was issued in 2021 that the ED was not at a stage that the IAASB would typically require for exposure and that consultation from stakeholders was needed in order to progress the standard.⁴ Due process would not be followed unless, at a minimum, the significant changes to ED-ISA for LCE are exposed once the draft of the proposed standard is at a stage where the IAASB would typically expose a proposed standard. In our understanding, that would be at the stage where IAASB members would be comfortable issuing the standard as final without additional revisions.
- Exposure of the significant changes to ED-ISA for LCE would enhance global support and acceptance of the final standard. Several jurisdictions have issued, or are in the process of developing, their own standards related to audits of less complex entities. Many of those alternative standards were not available when ED-ISA for LCE was initially exposed in 2021. Stakeholders should have the opportunity to consider approaches taken in those alternative standards and benchmark against the significant changes to ED-ISA for LCE in order to provide the IAASB with appropriate feedback. In addition, the IAASB needs to understand whether local jurisdictions would be able to operationalize the ED-ISA for LCE and those jurisdictions cannot be expected to make that determination without seeing and considering, at a minimum, the significant changes to ED-ISA for LCE.
- Anything less than exposure of the significant changes to ED-ISA for LCE is not in the public interest and results in a lack of transparency and may diminish global support and acceptance of the final standard.

Because of these reasons, we urge the IAASB to publicly communicate a timeline for potential issuance of the ISA for LCE that includes an additional exposure period of the significant changes to ED-ISA for LCE.

³ See [Agenda item 6-A from the IAASB’s March 2023 meeting](#).

⁴ See [IAASB Meeting Highlights and Decisions – June 2021](#).

Mr. Willie Botha
May 2, 2023

Additionally, if the IAASB determines that exposure of the complete revised proposed ISA for LCE is not necessary, it is important that the next time a revised draft of ISA for LCE is presented to the IAASB members, it be marked to show changes from ED-ISA for LCE.⁵

IAASB’s Plan with Respect to Updating ISA for LCE

Given that the IAASB currently has several significant open projects that are likely to impact audits of LCEs – such as audit evidence, fraud, and going concern, we recommend that the IAASB include in its Proposed Strategy and Work Plan the plan with respect to updating the ISA for LCEs post initial issuance (for example, whether revisions will be considered as part of each ISA project going forward or whether the IAASB will only update ISA for LCEs periodically).⁶

Consideration of the Work of Other Standards Setters

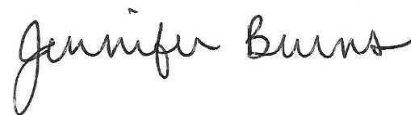
The IAASB has stated that the need for a set of high-quality requirements tailored for the audits of less complex entities is a global concern. Significant efforts have been initiated and, in some cases, completed by national standards setters. For example, the AICPA has developed and issued an authoritative guide that is intended to assist auditors of less complex entities in scaling the ASB’s standard that is converged with ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement*. Again, we strongly urge the IAASB to consider the work of national standards setters as such efforts increase the knowledge and expertise that is incorporated in the final ISA for LCE and would reduce the risk that the ISA for LCE would not be accepted globally.⁷

Thank you for the opportunity to present our views on the Exposure Draft. We would be pleased to discuss our comments or answer any questions that the IAASB or staff may have regarding the views expressed in this letter. If you have any questions regarding the comments in this letter or any of the attached appendices, please feel free to contact the Chair of the ASB, Sara Lord, at sara.lord@rsmus.com or the AICPA’s Chief Auditor, Jennifer Burns, at jennifer.burns@aicpa-cima.com.

Respectfully submitted on behalf of the ASB,



Sara Lord
Chair, Auditing Standards Board



Jennifer Burns, CPA
Chief Auditor
Professional Standards and Services

⁵ It is our understanding that a full revised draft is expected to be presented to the IAASB in June 2023.

⁶ See page 8 of the [ASB’s April 11, 2023 comment letter on the IAASB’s Proposed Strategy and Work Plan for 2024-2027](#).

⁷ See footnote 6.

About the AICPA Auditing Standards Board

The ASB is the senior committee of the AICPA designated to issue auditing, attestation, and quality control standards applicable to the performance and issuance of audit and attestation reports for non-issuers. Its mission is to serve the public interest by developing, updating and communicating comprehensive standards and practice guidance that enable practitioners to provide high-quality, objective audit and attestation services to non-issuers in an effective and efficient manner.

About the American Institute of CPAs

The American Institute of CPAs® (AICPA®) is the world's largest member association representing the CPA profession, with more than 428,000 members in the United States and worldwide, and a history of serving the public interest since 1887. AICPA members represent many areas of practice, including business and industry, public practice, government, education, and consulting. The AICPA sets ethical standards for its members and U.S. auditing standards for private companies, not-for-profit organizations, and federal, state, and local governments. It develops and grades the Uniform CPA Examination, offers specialized credentials, builds the pipeline of future talent, and drives continuing education to advance the vitality, relevance, and quality of the profession.

Appendix – Responses to Questions in the Exposure Draft

IAASB 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?

Response 1: We 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 – provided that our understanding of the IAASB’s intent is correct.

It is our understanding that the IAASB’s intent is to expand the applicability of the ED-ISA for LCE for engagements in which the auditor is engaged to audit the financial statements of a less-complex entity that includes components. The auditor is only permitted to use a component auditor to perform work when a physical presence is required for a specific audit procedure such as an inventory count or the verification of a physical asset performed at a component.

If our understanding is correct, while it may seem obvious to many auditors and standard setters, to avoid any confusion for a typical auditor who would use the proposed ISA for LCE, we recommend that the EEM on page 14 of 24 of the exposure draft under the heading “Component Auditors” be revised to include a statement as follows:

The auditor may involve an other auditor in the audit of financial statements that are not group financial statements (for example, to observe the inventory count or inspect physical fixed assets at a remote location). That other auditor is not a component auditor and the use of the ISA for LCE is permitted.

IAASB 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?

Response 2: We have no objection to the proposed group-specific qualitative characteristics in the Authority to describe the scope of group audits for which the proposed ISA for LCE is designed to be used. However, we believe that an explicit statement should be included that clarifies that the numbers provided (such as the “e.g., 5 or less” and “e.g., 3 or less” in the Group Structure and Activities section) are intended as examples that may be relevant considerations in complying with the Authority Document in conjunction with qualitative considerations but may vary according to other factors applicable to local jurisdictions. Further, it would be helpful if the examples were presented as a range to clarify that the consideration may vary.

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

Response 3: We agree with the content of proposed Part 10 and the related conforming amendments. However, we believe that a high-level summary as to how proposed Part 10 differs from ISA 600 (Revised) should have been prepared and posted to the IAASB’s website. Such a

Mr. Willie Botha
May 2, 2023

document would have assisted respondents in performing a complete review of the proposed Part 10 and the conforming amendments. We believe that the document should be prepared and presented as part of the agenda materials when the IAASB is asked to consider the comments received on the exposure draft because it would assist the IAASB members as they consider the appropriateness of the proposed Part 10 and related amendments.