

2 May 2023

Mr W Botha  
Technical Director  
International Auditing and Assurance Standards Board (IAASB)  
545 Fifth Avenue  
New York, NY 10017, USA

By email: [WillieBotha@iaasb.org](mailto:WillieBotha@iaasb.org)

Dear Mr Botha

**COMMENTS ON THE IAASB'S 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 – GROUP AUDITS) AND PROPOSED CONFORMING AMENDMENTS**

The Independent Regulatory Board for Auditors (IRBA) is both the audit regulator and national auditing standard setter in South Africa. Its statutory objectives include the protection of the public by regulating audits performed by registered auditors, and the promotion of investment and employment in South Africa. Its statutory Committee for Auditing Standards (CFAS) is responsible for assisting the IRBA to adopt, develop, maintain, issue and prescribe auditing pronouncements.

We appreciate this opportunity to comment on the proposed Part 10 Audits of Group Financial Statements of the Proposed ISA for LCE – Group Audits and Proposed Conforming Amendments developed by the IAASB.

While the IRBA engages in responding to this consultation as regulator and standard setter, we note that the requirements to conduct audits of companies and other entities sits in the legislation of those industries and regulators. The decision therefore on whether a future LCE standard, (which the IRBA may or may not adopt and prescribe in South Africa) and in particular the applicability of the future LCE standard in South Africa, will meet the audit requirements of current legislation will be the subject of interpretation, regulation and rule making.

[www.irba.co.za](http://www.irba.co.za)

- Physical Building 2, Greenstone Hill Office Park, Emerald Boulevard, Modderfontein
- Postal PO Box 8237 Greenstone 1616 Johannesburg South Africa
- Tel 010 496 0600 Fax 086 482 3250 E-mail [board@irba.co.za](mailto:board@irba.co.za)

*Established in terms of the Auditing Profession Act 26 of 2005 (as amended).*

Our comments have been prepared by a CFAS task group that comprises representatives from large and medium-sized firms, regulators, the South African Institute of Chartered Accountants and the Institute of Chartered Accountants of Namibia. These comments are presented under the following sections:

- A. General Comments; and
- B. Specific Questions and Responses.

If you require further clarity on any of our comments, please email [ychoonara@irba.co.za](mailto:ychoonara@irba.co.za).

Yours faithfully,

***Signed electronically***

**Imran Vanker**  
**Director: Standards**

**Yussuf Choonara**  
**Professional Manager: Standards**

## A. GENERAL COMMENTS

1. The IRBA supports the IAASB's decision for the inclusion of group audits in the future LCE standard because not all group audits are complex. The IRBA's view is conditional though on addressing (a) The detailed comments provided on the subject of groups in our comment letter dated 7 February 2022, (b) the substantive comments included in this letter, and (c) a reconsideration post-exposure of the combined future LCE standard.
2. We consider it unusual that the Explanatory Memorandum to the Exposure Draft has not explicitly shared the IAASB's application of the Monitoring Group's public interest framework to support its decision to develop this proposed Chapter 10. Such insights, matched with the PIOB's list of public interest issues, would be relevant to regulators and standard setters around the world as we progress this project through local standard setting processes. We therefore encourage the IAASB to consider such matters for inclusion in future publications, to demonstrate to its readers and users the attention it has dedicated to the relevant public interest issues.
3. This approach of releasing this proposed Chapter 10, while Chapters 1 to 9 are being revised based on the public comments from the exposure process is agile, but possibly unprecedented. Respondents such as ourselves are therefore committing to comment on Proposed Chapter 10, without an idea of where the Board will land on its previous exposure draft, and in particular how public interest, technical and professional issues raised by respondents will be addressed in the future LCE standard. We encourage the IAASB therefore to carefully consider the serious need for re-exposure of a future LCE standard, should the IAASB vote to approve a future LCE standard.
4. We suggest that the IAASB considers the following matters, as it continues with finalising the future LCE standard, and/or Chapter 10:
  - Refer to and consider our response to the 2021 *Exposure Draft, "Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities* (Exposure Draft ISA for LCE). In that response, we suggested that as an alternative approach to the proposed ISA for LCE, the IAASB should rather focus on the second workstream of the project that relates to developing drafting principles for the ISAs, to reduce complexity and improve understandability, scalability and proportionality of the ISAs (the CUSP project). ISAs that have been recently issued – such as ISA 315 (Revised)<sup>1</sup>, ISA 540 (Revised)<sup>2</sup> and the new and revised Quality Management Standards<sup>3/4/5</sup> – contain application material to assist in the audit of less complex entities and more complex entities. In a similar approach, the IAASB, through the CUSP project, can update the ISAs to ensure that they are suitable for application

---

<sup>1</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatements*.

<sup>2</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*.

<sup>3</sup> International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

<sup>4</sup> ISQM 2, *Engagement Quality Reviews*.

<sup>5</sup> ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*.

to the audit of LCEs. This approach would avoid many of the possible unintended consequences that we foresee could result from a separate standalone standard.

- Therefore, our inputs to the specific questions raised below are subject to satisfactory resolution of the concerns raised in our previous response to the Exposure Draft: ISA for LCE dated 7 February 2022.

## B. 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?*

### Response

- 1.1. Overall, we support the proposed prohibition on the use of the proposed ISA for LCE – Group Audits for group audits where component auditors are involved.
  - 1.2. However, we do disagree conceptually with an applicability provision that is based on the actions and structure of the audit firm or auditor, and not on the auditee. We encourage the IAASB to reconsider this in the interest of long term sustainability of the proposed standard, and to close the arbitrage opportunities that the current proposal creates between clients and their choice of audit firms. This approach of focus on the audit firm instead of the client, creates the odd and unhealthy situation that the actions of an audit firm could influence whether a client entity is an LCE or not, that the change in auditor could influence the classification of the audited entity, and that a change in structure of an audit firm could influence the applicability of the LCE standard to the audit firm’s clients.
  - 1.3. We therefore encourage the IAASB to only use criteria and characteristics of the audited entity in determining whether an entity is an LCE or not, and not to permit consideration of the circumstances of the audit firm.
  - 1.4. Additionally, paragraph 3 of ISA 600 (Revised)<sup>6</sup> does not only refer to the use of another auditor for the purposes of attending a physical inventory count or inspecting physical assets, but also includes the performance of audit procedures at a shared service centre. We therefore suggest that guidance be provided to clarify whether performing audit procedures at a shared service centre would be included in the scope of the proposed ISA for LCE -Group Audits, i.e. would qualify for the exemption.
  - 1.5. Likewise, we suggest that clarity be provided as to whether entities with, for example, investments in associates, joint ventures and joint operations would be included in the scope of the proposed ISA for LCE – Group Audits.
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.

---

<sup>6</sup> ISA 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*.

2.1. We support the inclusion of group-specific qualitative characteristics to describe the scope of group audits, for which the future LCE standard is designed. Our comments on each qualitative characteristic are detailed below.

### **Group Structure and Activities**

- Restricting the use of the future LCE standard to groups with only, for example, five business units or less is not always a fair reflection of a less complex group, nor does it address the risk of complexity. Groups may consist of more than 5 entities or business units; and based on their activities, centralised processing and the simplicity of the consolidation process, they could still be defined as less complex entities. As such groups with more than five business units or structures may also be included in the scope of group audits for which the future LCE standard is designed for. This process involves choosing an appropriate number or threshold, and whatever number is chosen will have advantages and disadvantages. Hence we understand the predicament the IAASB faces in determining a threshold. Therefore, we do not support the characteristic that a group with more than 5 business units or structures is always not classified as an LCE and suggest that it be deleted. We also do not support any numerical threshold for this characteristic.
- We suggest that the consideration for the centralised processing of accounting records be included as one of the qualitative characteristics, for a group to meet the application requirements of the future LCE standard. We think that any one of the current three characteristics could be expanded to accommodate this.

### **Jurisdictions**

- Including group entities or business units in different jurisdictions, even if limiting it to three or less jurisdictions, adds to complexity.
- Further, group structures within different jurisdictions may lead to foreign currency differences that could make the translation and consolidation process more complex, and should therefore be excluded from the future LCE standard.
- We suggest that a “jurisdictional boundary” should form part of the relevant criteria, such as when the group audit is conducted entirely within one jurisdiction or established geographical region.

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

- We are of the view that this characteristic appropriately addresses less complex group structures.

### **Consolidation Process**

- Where acquisitions or disposals of units within a group occur, this could further complicate the group structure and the consolidation process. It is unclear in the future LCE standard how this is to be dealt with.
- Further guidance is needed on whether acquisitions or disposals render a group unable to apply the future LCE standard; and if so, whether transitioning from the ISAs

to the future LCE standard would be allowed at a later stage during the audit. Given that the intention is for the future LCE standard to be a standalone standard, transitioning between the standards is probably not appropriate; hence, the future LCE standard needs to provide clearer guidance in this regard.

### **Complexity**

- When determining the complexity of a group, we recommend that the qualitative characteristics be expanded to consider the following additional qualitative characteristics mentioned in paragraph A93 of ISA 600 (Revised):
  - The structure and complexity of the group's IT environment.
  - Relevant regulatory factors, including the regulatory environment.
  - The ownership, and relationships between owners and other people or entities, including related parties.

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

### **Response**

- 3.1. We support the presentation of the group audit requirements in a separate section of the future LCE standard (Part 10).
- 3.2. However, similar to our comments raised on the Exposure Draft: ISA for LCE, this Part 10 on its own does not provide sufficient information for it to be read as a standalone standard. As it is currently drafted, the requirements of ISA 600 (Revised) would need to be considered/referred to, if a user does not have a working knowledge of ISA 600 (Revised), which then takes away from the intention of creating a separate standard. We therefore suggest that Part 10 of the future LCE standard be mapped to ISA 600 (Revised), to ensure that all aspects relating to group audits are addressed in it.
- 3.3. Furthermore, the proposed Part 10 is silent on the treatment of groups where other structures could form part of a group, i.e. associates, joint ventures and joint operations (refer to our response to question 1). If these other structures are considered to be included within the scope of the future LCE standard, additional guidance would be required, for example, in relation to the determination of component performance materiality (refer to paragraph A119 of ISA 600 (Revised)).
- 3.4. The aim of the future LCE standard is to simplify the auditing of less complex groups and reduce the extent of the audit work, due to the lower risk involved. However, the proposed materiality section, for example, does not reflect this, as it remains the same for a more complex group. By incorporating the ISA 600 (Revised) requirements without any substantive simplification, the future LCE standard would not yield any significant benefit in terms of time, cost and efficiencies. As such, the current draft may not sufficiently meet the needs of auditors.

\*\*\*\*\*