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02 May 2023

Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York
10017 USA

Submitted electronically at www.iaasb.org.

Dear Willie

SAICA's Comment letter on the IAASB'S on 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)

The South African Institute of Chartered Accountants (SAICA) is the home of chartered accountants in South Africa. We currently have approximately 47 000 members from various constituencies, including members in public practice, business, the public sector, education and other industries. In meeting our objectives, our long-term professional interests are always in line with the public interest and responsible leadership.

SAICA is currently the only professional accountancy organisation that has been accredited by the Audit Regulator in South Africa, the Independent Regulatory Board for Auditors (IRBA).

To inform our submission, SAICA established a task group consisting of members of our Assurance Guidance Committee, its related project groups and of members of members in practice and education sectors. We requested members of the working group to provide additional inputs to the comment letter. The SAICA Assurance Guidance Committee (AGC) reviewed and approved the comment letter.

We welcome the opportunity to comment on the IAASB'S Exposure Draft on the ISA for LCE.

Accompanying this cover letter, please find the comments prepared by SAICA on the Proposed ISA for LCE.

Our comments have been provided under four sections:

- A. Overall comments.
- B. Responses to specific questions.

Please do not hesitate to contact us should you wish to discuss any of our comments.

You are welcome to contact Thandokuhle Myoli (thandokuhlem@saica.co.za) or Angel Sithole (Angels@saica.co.za).

Kind regards



Thandokuhle Myoli
Executive: Audit and Assurance

A. OVERALL COMMENTS

1. SAICA welcomes the efforts of the International Auditing and Assurance Standards Board (IAASB) in issuing the Proposed ISA for LCE, as the new requirements are designed to strengthen the auditor's approach in auditing less complex groups.
2. We acknowledge that the IAASB aims to achieve the following objectives with regards to the proposed amendments:
 - The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.
3. Please refer below for our detailed feedback on the specific questions posed by the IAASB:

B. RESPONSES TO SPECIFIC QUESTIONS

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?

4.1 Yes, in principle we agree with using exclusion of component auditors as a base to conclude that the audit of the group falls within the audit of a LCE scope. Some specific considerations the task group deliberated on include the following:

Another auditor:

4.2 The examples provided in the exclusions "(e.g., attending a physical inventory count or inspecting physical assets)" indicate that the use of another auditor in these circumstances as part of a LCE audit would be allowed.

4.3 These are also highlighted as areas where the principles of group audits, International Standard on Auditing 600(Revised), *Special Considerations-Audits of Group Financial Statements (Including the work of Component Auditors)*, may be used per ISA 600 (Revised).

- 4.4 ISA 600 (Revised) par .3 indicates the following: *“As explained in ISA 220 (Revised), this ISA, adapted as necessary in the circumstances, may also be useful in an audit of financial statements other than a group audit when the engagement team includes individuals from another firm. For example, this ISA may be useful when involving such an individual to attend a physical inventory count, inspect property, plant and equipment, or perform audit procedures at a shared service center at a remote location.”*
- 4.5 We would like to recommend that requirements be provided in the standard around the inclusion or exclusion of a shared service centre within the scope of the LCE group audit.
- 4.6 A consideration could be that in the instance that the shared service centre is audited by the auditor of the LCE group, it is within the scope of the LCE standard.
- 4.7 In the instance that another auditor is required, it may indicate that it extends to the definition of a component auditor, in which case it may mean that the shared service centre causes this audit of the group to fall outside the scope of the LCE standard.
- 4.8 If a shared service centre within a group is considered to be included in the scope of LCE group audit and there is considered to be scenarios where using another auditor is appropriate, it is suggested that the same wording in ISA 600 (Revised) paragraph 3 should be used in the LCE standard.

Equity accounted investments:

- 4.9 We are of the view that clarity should be provided whether entities with investments in associates and joint ventures (or even joint operations) would be included in the scope of the LCE standard or not.
- 4.10 The proposed standard is silent when it comes to components that are not subsidiaries. If these equity accounted investments are considered to be included within the LCE scope, more guidance would also be required in relation to the determination of component performance materiality in these instances (similar to available guidance in ISA 600 Revised par. A119).

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?

5.1 Yes, in principle we agree with providing qualitative characteristics to describe the scope of LCE group audits. We have, however, identified the following concerns with the current proposed qualitative characteristics:

Number of entities:

5.2 We are of the view that the use of the 5 or less entities or business units to define a LCE group in itself, is not a fair reflection of a less complex group. This assessment has to be in conjunction with the other factors to conclude that it is a less complex group audit.

Jurisdictions:

5.3 We are of the view that including more than one jurisdiction can create complexity. Further guidance should be provided in the standard to ensure that the auditor appropriately concludes whether the work in another jurisdiction can be performed by the particular LCE auditor.

5.4 For example, registration requirements of the auditor in the specific region; shared service centres or location where accounting records are kept that would make an audit by the same auditor feasible.

Complexity:

5.5 When understanding complexity of the group, we recommend that the requirements that need to be included in the LCE standard be expanded to include areas that would make a group audit more complex and therefore exclude it from the scope of LCE group audits.

5.6 We recommend the use of guidance available in ISA 600 (Revised) par. A93 to clearly indicate the factors that would likely increase complexity of the group.

5.7 Some specific areas that are recommended for further consideration:

- Complexity of the group's structure, including consideration of shared services centres, service organisations and equity accounted investments
- Geographic locations
- Structure and complexity of the group's IT environment
- Relevant regulatory factors
- Ownership, and relationships between owners and other people or entities, including related parties.

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

6.1 Yes, we agree with some of the proposed contents in part 10, however we are of the view that the IAASB has to further refine the standard to take into account the following:

The Objectives in the section should also include an overarching principle:

6.2 Evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed.

Engagement acceptance and continuance:

6.3 Engagement acceptance and continuance was not considered in the proposed section as it pertains to a group audit specifically. We recommend that it should include, in addition to the decision in the main LCE standard, the following in the group audit section:

6.4 Whether the auditor:

- Will have unrestricted access to those charged with governance of the group, group management, those charged with governance of the component, component management and component information, including of those components that are accounted for by the equity method (*if relevant*); and
- Will be able to perform necessary work on the financial information of the components when applicable.;
- Whether sufficient and appropriate resources are assigned or will be made available.

6.5 Currently the proposed section only includes: “If, after the acceptance or continuance of the group audit engagement, the engagement partner concludes that sufficient appropriate audit evidence cannot be obtained, the engagement partner shall consider the possible effects on the group audit.” The inclusion of considerations set out in ISA 600 Revised par. A36 may be relevant to help the auditor conclude.

6.6 ISA 600 (Revised) clearly includes a before and after assessment of the acceptance and continuance decision.

- ISA 600 (Revised) par. 17: *“Before accepting or continuing the group audit engagement, the engagement partner shall determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for forming an opinion on the group financial statements.” (Ref: Para. A32–A35)*
- ISA 600 Revised par. 18: *“If, after the acceptance or continuance of the group audit engagement, the engagement partner concludes that sufficient appropriate audit evidence cannot be obtained, the engagement partner shall consider the possible effects on the group audit.” (Ref: Para. A36)*
- ISA 600 (Revised) par. A36 (amended to reflect appropriateness in a LCE group): *Restrictions may be imposed after the group engagement partner’s acceptance of the group audit engagement that may affect the engagement team’s ability to obtain sufficient appropriate audit evidence. Such restrictions may include those affecting:*
 - *The group auditor’s access to component information, management or those charged with governance of components, (including relevant audit documentation sought by the group auditor); or The work to be performed on the financial information of components.*

Planning activities:

6.7 We recommend that clarity or guidance be provided with regards to the following as included in proposed section 10.6.1:

6.8 *The auditor may determine that the financial information of components can be considered as a single population for the purpose of performing further audit procedures, for example, when transactions are considered to be homogeneous because they share the same characteristics, the related risks of material misstatement are the same, and controls are designed and operating in a consistent way. In such cases, group performance materiality often will be used for purposes of performing these procedures.*

6.9 A group may have three legal entities with similar business characteristics, operating in the same geographical location, under the same management, and using a common system of internal control, including the information system. In these circumstances, the auditor may decide to treat these three legal entities as one component.

6.10 In these circumstances the auditor would need to obtain evidence that supports the commonality and/or principles of shared service centres applicable to be in a position to treat the population as one population. We recommend the inclusion of additional requirements in the section to clarify that audit effort is required to conclude that the commonality of characteristics, risks and controls as set out in the section 10.6.1 applies.

Layout of section:

6.11 The section on “Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group’s System of Internal Control” should be included before the section on “Materiality”. Understanding of the Group and its Environment would inform the determination of materiality.

Materiality:

6.12 We recommend the inclusion of “*The measures used internally and externally to assess the financial performance of the entities or business units;*” as this is quite relevant in understanding risks and how to determine materiality in the group context.

Determination of materiality as it pertains to equity accounted investments:

6.13 Guidance around equity accounted investments is not provided in the proposed section, and as set out above, if considered to be within scope of an LCE group audit, we recommend including guidance similar to ISA 600 (Revised) par.A119: “*When determining component performance materiality for a non-controlling interest in an entity that is accounted for by the equity method, the group auditor may consider the group’s ownership percentage and the share of the investee’s profits and losses.*”

Communication:

6.14 We are of the view that there should be an inclusion of the requirement to communicate corrected and uncorrected misstatements of the component financial information identified at component level that are above the threshold communicated by the group auditor.

