



For the attention of Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York, New York, 10017
USA

[Submitted via IAASB website]

2 May 2023

Dear Mr. Botha,

IAASB 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)

We¹ appreciate the opportunity to comment on the IAASB's Exposure Draft (ED) for proposed Part 10 of the proposed ISA for LCE.

We support the proposed scope, including prohibition on use of component auditors

In our response to the 2021 ED of the ISA for LCE, we supported the Board's decision to exclude group audits from the scope of the standard. This was primarily to safeguard against unacceptable risks to audit quality arising (including that the LCE standard is inconsistently applied in similar fact patterns).

Based on the feedback from respondents to the ED, we agree with the Board's conclusion that a complete prohibition on the use of the standard for group audits may be disproportionate. We therefore support the Board's decision to reconsider the prohibition and believe that the risks to audit quality that underpinned our 2021 position can be managed by the Board's proposal to only accommodate use of a component auditor in circumstances when a physical presence is needed to perform a specific audit procedure for the group audit. We envisage it might be quite common, for example, to attend a physical inventory count in an offshore location. Such limited scope procedures, under the direction and supervision of the group auditor, should not give rise to unacceptable risks to audit quality. Therefore, in light of this condition, we support the Board's proposals to incorporate group audits within the scope of the standard. We provide further comments on the proposed language used to describe the specific prohibition in our response to question 1 in the appendix to this letter.

We are also supportive of the Board's proposed additional qualitative characteristics related to group audits, proposals for Part 10 of the ISA for LCE, and proposed conforming amendments to other Parts of the standard. We provide some additional comments and recommendations in our responses to questions 2 and 3 in the appendix to this letter.

¹ This response is being filed on behalf of the network of member firms of PricewaterhouseCoopers International Limited and references to "PwC", "we" and "our" refer to the PwC network of member firms.

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We hope our observations in this letter and the accompanying appendix provide useful input in achieving the Board's goal. We would be happy to discuss our views further with you.

If you have any questions regarding this letter, please contact Gilly Lord, at gillian.lord@pwc.com, or me, at james.chalmers@pwc.com.

Yours sincerely,

A handwritten signature in black ink that reads "James Chalmers". The signature is written in a cursive, flowing style.

James Chalmers
Global Assurance Leader

Appendix - Responses to 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?

In our response to the 2021 exposure draft of the ISA for LCE, we supported the Board's decision to exclude group audits from the scope of the standard. We further noted, acknowledging that there can be simple group audits, that if the Board revisited its decision, our recommendation was to restrict the scope only to group audits conducted by a single firm and without the involvement of component auditors. The need to use component auditors may be indicative of a more complex group. This was primarily to safeguard against unacceptable risks to audit quality arising (including that the LCE standard is inconsistently applied in similar fact patterns).

Based on the feedback from respondents to the ED, we agree with the Board's conclusion that a complete prohibition on the use of the standard for group audits may be disproportionate. We therefore support the Board's decision to reconsider the prohibition and believe that the risks to audit quality that underpinned our 2021 position can be managed by the Board's proposal to only accommodate use of a component auditor in circumstances when a physical presence is needed to perform a specific audit procedure for the group audit. We envisage it might be quite common, for example, to attend a physical inventory count in an offshore location. Such limited scope procedures, under the direction and supervision of the group auditor, should not give rise to unacceptable risks to audit quality. Therefore, in light of this condition, we support the Board's proposals to incorporate group audits within the scope of the standard. To aid understanding and avoid any misinterpretation, we recommend moving the third sentence of the essential explanatory material to the end of the first sentence.

We acknowledge that the Board's proposed change to the specific prohibitions provides examples of specific audit procedures for which a physical presence may be needed e.g., attending a physical inventory count or inspecting physical assets. However, we believe that there remains a risk that the reasons for why a physical presence is needed can be misinterpreted or indeed abused.

It is not practicable for the Board to seek to provide a list of specific audit procedures that may require a physical presence. Instead, we recommend that the essential explanatory material presented below the specific prohibitions should clearly state that the fact a component or business unit of an entity may operate in a different jurisdiction is not reason alone for the need for a physical presence. Furthermore, we recommend explicitly stating that the intent of the prohibition is that component auditors may not be engaged to design and perform risk assessment or further audit procedures on the entire financial information of a component, design and perform risk assessment or further audit procedures on one or more classes of transactions, account balances or disclosures, or perform a detailed list of specific further audit procedures, as contemplated in ISA 600 (Revised). Such a clear statement would remove any ambiguity about the scope of what is permissible under the proposed specific prohibition.

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?

In our 2021 response, we also stated that any decision to permit the use of the proposed ISA for



LCE for group audits must be driven solely in relation to audit quality and be supported by clear criteria for when such use would be deemed appropriate, in addition to any qualitative size criteria that may be established.

In light of the specific prohibition, described in question 1, we support the proposed group-specific qualitative characteristics that describe the scope of group audits for which the proposed ISA for LCE is designed to be used.

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

Part 10

We agree with the general scope of requirements proposed for Part 10. We provide the following recommendations on the content of specific requirements:

Para 10.1.1 - It is unclear why the objective of this Part addresses only risk assessment (Part 6) and response (Part 7). The corresponding objective in ISA 600 (Revised) also addresses engagement acceptance and the evaluation of whether sufficient appropriate audit evidence has been obtained. It appears inconsistent to argue some elements are adequately addressed by other Parts of the standard while deeming it necessary to repeat these objectives. Requirement 10.2.2 refers to both acceptance and continuance and the conclusion whether sufficient appropriate audit evidence has been obtained. Therefore, we recommend the objective addresses these elements, consistent with ISA 600 (Revised). We also recommend that paragraph 17 of ISA 600 (Revised) be included in this section, which we believe is a necessary requirement that sets the context for paragraph 10.2.2.

Para 10.2.1 - We recommend the last sentence of the essential explanatory material be updated to clarify an additional consideration of the auditor, recognising that multi-jurisdictional audits are contemplated in the qualitative characteristics, as follows:

“The auditor’s determination of the resources needed to perform the group audit are a matter of professional judgment and may include consideration of the understanding of the group, the components within the group at which audit work is to be performed, the location of such components and any related jurisdictional factors such as language, culture and regulation, and whether to perform work centrally, at components or a combination thereof.”

Para 10.4.1 - The proposed additional qualitative characteristics in the Authority do not address IT systems. We do not believe it is necessary to add further qualitative characteristics. However, we recommend that paragraph 10.4.1(a) is updated to mention IT systems, as follows:

“(a) The group’s organizational structure and business model, including the locations in which the group has its operations or activities and the extent to which they operations and IT systems are similar across the group.”

Para 10.5.1 - Consistent with the intent of other requirements to only explain the incremental considerations applicable to a group audit, and not to repeat an underlying requirement, we suggest this requirement be redrafted to remove the direct duplication with Part 6, as follows:

“~~In applying Part 6, based on the understanding obtained in paragraph 10.4.1,~~ the auditor’s shall identification and assessment of the risks of material misstatement of the group financial



statements shall include consideration of risks related to the matters for which the auditor obtained an understanding in accordance with paragraph 10.4.1, including with respect to the consolidation process.”

Para 10.7.1 - This requirement duplicates requirement 1.8.6 of the 2021 ED-ISA for LCE. The only difference is the insertion of the word “group”. We believe 1.8.6 can be readily understood and applied in the context of a group audit such that there is no “special consideration” to be addressed in Part 10. We recommend this requirement be deleted.

Para 10.7.2(b) - Based on the same rationale as described for paragraph 10.7.1 above, we believe there is no specific need for this requirement as it is adequately addressed by paragraph 1.8.7. Also, paragraph 10.7.2(b) omits the important condition addressed in paragraph 1.8.7 that communication may be prohibited by law or regulation.

Conforming amendments

We agree with the content of the proposed conforming amendments. With respect to the proposed illustrative report included in paragraph 9.4.1 of the 2021 ED-ISA for LCE, we recommend that the proposed additional conditional text, to be included within the auditor’s responsibilities section of the report, is presented directly as part of the body of the illustrative report content rather than showing this content as a footnote. The footnote may be overlooked, leading to an incomplete report. Also, the footnote is ambiguous as to exactly where and how this additional content is to be included within the auditor’s responsibilities section. It implies the inclusion of a roman numeral list, which we do not believe is the intent. A new footnote can be added to the conditional text within the body of the illustrative report to make clear that this text is only to be included when Part 10 applies. This approach will better safeguard the integrity of the report and overall compliance with the standard.