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Thomas Seidenstein  
International Auditing and Assurance  
Standards Board  
International Federation of Accountants  
529 Fifth Avenue  
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Our ref SRA/288

2 May 2023

Dear Mr Seidenstein

**Re: 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)***

We appreciate the opportunity to comment on the above Exposure Draft (ED) issued by the IAASB (the “Part 10, Group Audits”). We have consulted with, and this letter represents the views of, the KPMG network.

We set out our overarching comments below. Our more detailed responses to the specific questions posed by the IAASB are set out in Appendix 1 of this letter.

**Overarching Comments**

We are supportive of the IAASB’s proposal to include groups that are less complex within the scope of the ISA for Less Complex Entities (the “LCE-ISA” or the “standard”). We are also supportive of the proposed prohibition on the use of this standard for group audits when component auditors are involved, other than in the limited circumstances described by the IAASB, as we believe that a group auditor often determines that involvement of a component auditor is appropriate to respond to complexity, and a reasonable degree of the potential complexity relating to group audits arises from the use of component auditors, i.e., in determining whether they have appropriate competence and capabilities, instructing them and communicating with them, being involved in their work, and evaluating their work. We therefore agree with the IAASB that, commensurate with their intention that this standard address the “typical” less complex entity, it would generally not be appropriate for group audits that involve component auditors to be within the scope of the LCE-ISA.

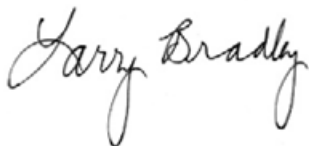
Notwithstanding the above, we recognise the IAASB’s intentions in allowing the use of the LCE-ISA when component auditors are involved in certain limited circumstances, where the involvement of component auditors would be for practical reasons such as the need for a physical presence for a specific audit procedure e.g., to attend an inventory count or to verify a physical asset, as such involvement would not be considered to be a “proxy for complexity” in respect of the group audit.

We welcome the proposed additional group-specific qualitative characteristics set out in the Authority to the standard, as “proxies for complexity” in respect of groups. We consider that the inclusion of these additional characteristics to describe a “typical” less complex group would be very useful in ensuring an appropriate entry point to the LCE-ISA for group audits. We also consider this content to be helpful, in addition to the prohibition on the use of this standard for group audits when component auditors are involved, in reducing the likelihood that an auditor inappropriately concludes that they can apply the LCE-ISA to a group that is not less complex.

We agree with the content of Proposed Part 10 of the LCE-ISA and related conforming amendments, which we consider to be appropriate for a “typical” non-complex group audit. We recognise the IAASB’s rationale for proposing to include the group audit requirements within a separate part of the LCE-ISA, and we do not object to that approach.

Please contact Sheri Anderson at [sranderson@kpmg.com](mailto:sranderson@kpmg.com) if you wish to discuss any of the issues raised in this letter.

Yours sincerely



Larry Bradley  
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## Appendix 1 – Specific Questions Posed by IAASB

*Respondents are asked to comment on the clarity, understandability and practicality of application of proposed Part 10 and related conforming amendments. In this regard, comments will be most helpful if they are identified with specific aspects and include the reasons for any concern about clarity, understandability and practicality of application, along with suggestions for improvement. When a respondent agrees with the proposals it will be helpful for the IAASB to be made aware of this view.*

### Specific Questions

*Please respond directly to the questions and provide the rationale for your answers, as well as specific suggestions, where appropriate. We appreciate all your feedback, and respondents may respond to all questions or only those where they have specific comments.*

- 1. In the Authority, do you agree with the proposed prohibition on the use of the proposed ISA for LCE for group audits when component auditors are involved, other than in limited circumstances where physical presence is required?**

We are supportive of the IAASB's proposal to include groups that are less complex within the scope of the LCE-ISA. As we described in our response to the IAASB ED, *Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities*, we believe there are groups that have low "complexity", e.g. with few components and which are located in a single jurisdiction, and it would not be helpful to exclude such groups from the standard, as this may significantly reduce the population of entities to which the standard could be appropriately applied.

In including less complex groups within the scope of the LCE-ISA, we are supportive of the proposed prohibition on the use of the standard for group audits when component auditors are involved, other than in the limited circumstances described by the IAASB. This is on the basis that we believe that a group auditor often determines that involvement of a component auditor is appropriate to respond to complexity, and a reasonable degree of the potential complexity relating to group audits arises from the use of component auditors, i.e., in determining whether they have appropriate competence and capabilities, instructing them and communicating with them, being involved in their work, and evaluating their work. We therefore agree with the IAASB that, commensurate with their intention that this standard address the "typical" less complex entity, it would generally not be appropriate for group audits that involve component auditors to be within the scope of the LCE-ISA.

Consequently, we consider this prohibition to be an optimal solution as it establishes a clearly defined boundary that scopes out groups that are reasonably expected to be more complex.

We also note that, in taking this approach, the material to include in the LCE-ISA regarding group audits is less in scope as it is not intended to address involvement

of component auditors, and therefore avoids adding to the length of this standard unnecessarily.

Notwithstanding the above, we understand the IAASB's intentions in permitting the use of the LCE-ISA when component auditors are involved in certain limited circumstances, when the involvement of component auditors would be for practical reasons such as the need for a physical presence for a specific audit procedure e.g. to attend an inventory count or to verify a physical asset, as such involvement would not be considered to be a "proxy for complexity" in respect of the group audit. We are supportive of this approach, as we recognise that in the circumstances envisaged by the IAASB, the component auditor would be involved for "convenience", rather than because they are contributing particular skills, experience or expertise in technical or other matters, which would likely be in response to complexity.

**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 agree with the IAASB that the qualitative characteristics of a "less complex group" as envisaged by the LCE-ISA should essentially be aligned with those of an entity that is not a group and that both the group as a whole as well as each of the individual entities and business units that comprise the group should meet the same qualitative characteristics as a less complex entity that is not a group.

We are supportive of the proposed additional qualitative characteristics set out at A3 of the revised Authority, as "proxies for complexity" that are specific to group audits, such as in relation to the group's structure and activities; access to information or people, and the consolidation process itself. We consider that the inclusion of these additional characteristics to describe a "typical" less complex group is important to ensure an appropriate entry point to the LCE-ISA for group audits. We also consider this content to be helpful, in addition to the prohibition on the use of this standard for group audits when component auditors are involved, in reducing the likelihood that an auditor inappropriately concludes that they can apply the LCE-ISA to a group that is not less complex.

However, in order to achieve the aims of the IAASB, we suggest that these characteristics be strengthened/expanded, to include further information to explicitly address the aspects of these group-specific matters that may give rise to complexity, which may also underpin decisions by group auditors to involve component auditors, as follows:

- Group structure and activities - rather than a characteristic which is focused on the number of entities and business units, or the number of jurisdictions in which they operate, which may be a somewhat arbitrary threshold in terms of the entry point to the standard, we recommend that these characteristics emphasise the nature of locations where operations are based. In particular, auditors should consider whether or not these locations are situated in different jurisdictions,

which may have greater risks of fraud; political and economic instability, as well as different language; culture; customs and business practices/norms; laws and regulations, and legal/ regulatory environment, including oversight, to those of the jurisdiction of the parent company;

- Access to information or people – we suggest that this characteristic also include examples of circumstances in which group management may be less able to provide the engagement team with access to information and unrestricted access to persons within the group, e.g. this may be the case in certain situations when a component is an equity accounted investee;
- Consolidation process – we recommend that this characteristic provide further examples of complexity within a consolidation process, such as when there are judgments with respect to boundaries of the group; cross holdings; foreign currency translation; hedging activities; transfer pricing arrangements, and complexity of intercompany transactions and eliminations.

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

We agree with the content of proposed Part 10 and related conforming amendments, which we consider to be appropriate for a “typical” less complex group audit. We agree with the IAASB’s rationale that content from ISA 600 (Revised) need not be included that relates to the involvement of component auditors, consistent with the IAASB’s decision that use of the proposed LCE-ISA be prohibited when component auditors will be involved, other than in certain limited circumstances, and also that content that is otherwise directed at complexity within a group audit, such as evaluation of consolidation adjustments for entities or business units that are subject to different accounting policies to the parent, or have non-coterminous period ends, should not be included, on the basis that the standard is intended for use by a “typical” less complex group audit.

We agree with the IAASB’s view that, in the limited circumstances in which it is envisaged that component auditors will be involved, such as in situations when a physical presence is required for a specific audit procedure in an otherwise less complex group audit, the requirements of the LCE-ISA would appropriately address their involvement, without the need for the inclusion of additional, group-specific content from ISA 600 (Revised).

We are also supportive of the EEM, which we consider to be clear and commensurate with the additional requirements in respect of group audits set out in proposed Part 10 of the LCE-ISA, and of the proposed conforming amendments.

In our response to the IAASB ED, *Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities*, we suggested that requirements in respect of group audits be included throughout the LCE-ISA, in line with the overall flow of the standard, which would be consistent with the approach taken for the standard as a whole. We believe this would ensure that the material is

more directly accessible and user-friendly, helping users to understand requirements that are incremental in a group audit, in context. This would continue to be our recommended approach, and we believe this would be appropriate since the material for inclusion within the LCE-ISA is limited, given that most of ISA 600 (Revised) is designed to address the involvement of component auditors, or more complex matters in relation to group audits, and is therefore not necessary to include in the LCE-ISA.

In taking this approach, we would suggest that the group audit material that is interspersed throughout the LCE-ISA be distinguished from other content of the LCE-ISA, e.g., by inclusion in separate boxes, for ease of use by auditors who are not auditing a group. This would also enable jurisdictions that do not permit the proposed LCE-ISA to be used for group audits to exclude proposed Part 10.

However, we understand the IAASB's rationale for proposing to include the group audit requirements within a separate part of the LCE-ISA, and we do not object to that approach.