A. Authority of the ISA for Audits of Financial Statements of Less Complex Entities

... Limitations for Using the ISA for LCE ...

Specific Prohibitions ...

A.1. The ISA for LCE shall not be used if:

... (d) The audit is an audit of group financial statements (group audit) and:

| (i) | Any of the group’s individual entities or business units meets the criteria as described in paragraph A.1.(b) or A.1.(c); or |
| (ii) | Component auditors are involved except when the component auditor’s involvement is limited to attending a physical inventory count or inspecting physical assets. |

A single legal entity may be organized with more than one business unit, for example, a company with operations in multiple locations, such as a store with multiple branches. When those business units have characteristics such as separate locations, separate management, separate general ledger and the financial information is aggregated in preparing the single legal entity’s financial statements, such financial statements meet the definition of group financial statements because they include the financial information of more than one entity or business unit through a consolidation process.

In some cases, a single legal entity may configure its information system to capture financial information for more than one product or service line for legal or regulatory reporting or other management purposes. In these circumstances, the entity’s financial statements are not group financial statements because there is no aggregation of the financial information of more than one entity or business unit through a consolidation process. Further, capturing separate information (e.g., in a sub-ledger) for legal or regulatory reporting or other management purposes does not create separate entities or business units (e.g., divisions) for purposes of this ISA for LCE.
Component Auditors

A component auditor is an auditor who performs audit work related to a component¹ for purposes of the group audit. A component auditor is a part of the engagement team for a group audit.

When the auditor responsible for the group audit performs audit procedures related to a component, the auditor is not considered a component auditor.

A component auditor who is involved in attending a physical inventory count or inspecting physical assets is part of the engagement team. Part 3 contains requirements in relation to the direction, supervision, and review of the engagement team.

¹ A component is an entity, business unit, function or business activity, or some combination thereof, determined by the auditor responsible for the group audit for the purposes of planning and performing audit procedures in a group audit.