Updated based on the IAASB discussion on December 5, 2022. Changes are marked from Agenda Item 3, paragraph 14.

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

Content of this Part

... For the purposes of this Part, the use of “LCE” or “entity” also refers to a group (i.e., where the audit is an audit of group financial statements).¹

... 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 circumstances in which a physical presence is needed (e.g., 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

¹ A “group” is a reporting entity for which group financial statements are prepared and “group financial statements” are financial statements that include the financial information of more than one entity or business unit through a consolidation process. The term “consolidation process” as used in the ISA for LCE is not intended to have the same meaning as “consolidation” or “consolidated financial statements” as defined or described in financial reporting frameworks. Rather, the term “consolidation process” refers more broadly to the process used to prepare group financial statements. The Glossary (Appendix 1) describes the meanings attributed to certain terms for the purpose of the ISA for LCE, including the meaning of group and group financial statements.
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 component² for purposes of the group audit. A component auditor is a part of the engagement team for a group audit.

Part 3 contains requirements in relation to the direction and supervision of the members of the engagement team, and the review of their work.

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

Qualitative Characteristics

A.3. ...

For the purpose of group audits, these considerations shall apply to both the group and each of its individual entities and business units.

Additional Characteristics Relevant for Group Audits

| Group Structure and Activities | The group has few entities or business units (e.g., 5 or less). Group entities or business units are limited to few jurisdictions or geographical locations (e.g., 53 or less). |
| Access to Information or People | Management can provide access to all information and people within the group relevant to the preparation of the group financial statements. Group management will be able to provide the engagement team with access to information and unrestricted access to persons within the group as determined... |
Audits of Less Complex Entities – Group Authority (Turnaround)

IAASB Main Agenda (December 2022)

Agenda Item 3-H

<table>
<thead>
<tr>
<th>Consolidation Process</th>
<th>The group has a simple consolidation process. For example:</th>
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<tbody>
<tr>
<td></td>
<td>• Financial information of all entities or business units have been prepared in accordance with the same accounting policies applied to the group financial statements;</td>
</tr>
<tr>
<td></td>
<td>• All entities or business units have the same financial reporting period-end as that used for group financial reporting;</td>
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<tr>
<td></td>
<td>• There are no sub-consolidations; and</td>
</tr>
<tr>
<td></td>
<td>• There are no complex intercompany, or other consolidation adjustments are not complex.</td>
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</tbody>
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2 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.