

Agenda Item C.5

For Reference

Please note: This is the IAASB Audits of LCEs Issues Paper that was discussed by the Board at the July 2023 IAASB mid-quarter call (Agenda Item 1). This paper is provided to the IAASB CAG Representatives in September 2023 for reference purposes. Other July 2023 Audits of LCEs Agenda Items, as summarized below, may be accessed through the IAASB's [Meeting Page](#).

Audits of Less Complex Entities – Selected Issues

Objectives of the Board Discussion

The objectives of this session are to:

- a) Provide the Board with an overview of respondent's comments to the [Exposure Draft of Part 10, Audits of Group Financial Statements, of the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities](#) (ED-ISA for LCE-Group Audits).
- b) Obtain the Board's input on proposed revisions to Part 10, *Audits of Group Financial Statements* of the proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the ISA for LCE).

Board Discussion

Issues Paper

This paper describes the issues addressed by the Less Complex Entities (LCE) Task Force (the Task Force) and for discussion with the IAASB at its July 2023 meeting.

The following appendices to this Agenda Item have been presented:

Appendix 1	Task Force Members and Activities
Appendix 2	Explanation of Significant Changes to Proposed ISA for LCE (Group Audits)
Appendix 3	List of Respondents to ED-ISA for LCE-Group Audits

In addition to this issues paper, the following agenda items have been presented:

Agenda Item 1-A	Proposed ISA for LCE (Group Audits Authority, Part 10 and Conforming Amendments) – Marked
Agenda Item 1-B	Proposed ISA for LCE (Group Audits Authority, Part 10 and Conforming Amendments) – Clean
Supplement 1 to Agenda Item 1	Respondent Summary Analysis
Supplement 1-01 to Agenda Item 1	Respondent Detailed Comments

Introduction

ED-ISA for LCE-Group Audits

1. In July 2021 the [Exposure Draft of Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities](#) (ED-ISA for LCE) was published for public comment. In the ED-ISA for LCE, audits of group financial statements (group audits) were excluded from the scope of the proposed standard. Respondents to the ED-ISA for LCE along with participants of outreach activities noted strong support for the inclusion of group audits. Therefore, the IAASB reconsidered the decision to exclude group audits from the scope of ED-ISA for LCE.
2. As the ED-ISA for LCE included a specific prohibition that excluded all group audits, it did not include any requirements or Essential Explanatory Material (EEM) related to group audits. Given the June 2022 Board decision to include group audits in the scope of the proposed ISA for LCE, the Task Force developed requirements and EEM and a new part was added to the ISA for LCE, Part 10. As these requirements and EEM had not previously been exposed for public comment, the IAASB developed the ED-ISA for LCE-Group Audits.
3. ED-ISA for LCE-Group Audits was exposed for a 90-day comment period that closed on May 2, 2023. Respondents to ED-ISA for LCE-Group Audits (respondents) were asked for feedback on three specific questions. Sixty written responses were received (see Appendix 3 for a further breakdown).

Stakeholder Type	No.
Regulators and Audit Oversight Authorities	5
National Auditing Standard Setters	11
Accounting Firms	13
Public Sector Organizations	2
Member Bodies and Other Professional Organizations	28
Individuals and Others	1
Total	60

Region	No.
Global	13
Asia Pacific	10
Europe	21
Middle East and Africa	7
North America	7
South America	2
Total	60

What Have We Done Since We Last Met?

4. **Appendix 1** sets out the members of the Task Force, as well as its activities.
5. The Task Force analyzed the responses to the ED-ISA for LCE-Group Audits and has proposed revisions to the Authority, Part 10 of the proposed ISA for LCE and related conforming amendments.
6. The Task Force noted that the respondents not only commented on the specific questions but also shared their views on the proposed ISA for LCE more broadly. Also, respondents noted that the IAASB should focus on the adoption and implementation of the standard and suggested the need for

more communications in terms of the proposed standard's value. The Task Force will analyze the comments received and consider them when developing the adoption and implementation plan.

I. Prohibition for Group Audits where Component Auditors are Involved

Background

7. The section below summarizes question 1, the themes noted for the responses as presented in **Supplement 1-01 to Agenda Item 1**, and the initial responses and recommendations proposed by the Task Force for discussion with the Board.
8. Question 1 asked if the respondents agreed 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.
9. As explained in the EM of ED-ISA for LCE-Group Audits, on balance the IAASB was of the view that the use of component auditors should be excluded from the scope of the proposed ISA for LCE, recognizing the overall pervasive theme heard from respondents to ED-ISA for LCE that the scope of the proposed standard should better reflect the typical LCE for which the proposed ISA for LCE is intended to be designed for.
10. In developing the ED-ISA for LCE-Group Audits, the IAASB considered examples provided through outreach and from respondents to ED-ISA for LCE of situations where component auditors may be involved in a less complex group audit. The IAASB took these examples into account when developing an exemption to allow the component auditor's involvement in limited circumstances in which a physical presence is needed for a specific audit procedure for the group audit (e.g., attending a physical inventory count or inspecting physical assets).

What We Heard

Views on the Prohibitions Relating to the Use of Component Auditors

11. Respondents had mixed views whether a prohibition relating to the use of component auditors should be included in the Authority of the proposed ISA for LCE.

Supporting a Prohibition for Component Auditors

12. Respondents supporting a prohibition relating to component auditors had mixed views if such a prohibition should be:
 - (a) *As described in the Exposure Draft* (i.e., the use of component auditors is not allowed other than in limited circumstances where physical presence is required). Respondents noted that on balance group audits involving component auditors should not be included in the scope of the proposed standard as generally they would not be common for a typical LCE. They noted that the exemption for limited circumstances where physical presence is required was reasonable and appropriate due to the reasons described in the EM of ED-ISA for LCE-Group Audits (i.e., addresses the most common situations where a component auditor is required for specific audit procedures due to practical reasons).
 - (b) *Revised to Expand Exemption*. Respondents noted that there may be other situations when the use of component auditors for practical reasons is useful and that are common in an audit

of typical LCE. Respondents suggested expanding the exemption to also cover the use of component auditors in the following situations:

- (i) Specific skills, knowledge or expertise are needed (e.g., knowledge of jurisdictional legal requirements, business customs, language etc.).
 - (ii) Laws and regulation prevent remote access.
 - (iii) Other specific audit procedures where physical presence may be required, including inspection of documents, obtaining a confirmation directly from a supplier or financial institution or a site visit of customers or suppliers.
 - (iv) Specific audit procedures generally. These respondents were of the view that component auditors can be used for all specified procedures needed. However, they noted that the exemption should not be extended to full scope audits of components which respondents agreed should not be in the scope of the proposed ISA for LCE.
 - (v) Procedures at a shared service center at a remote location. ISA 600 (Revised),¹ paragraph 3 mentions this as an example of where the engagement team may involve individuals from another firm.
- (c) *Revised to Narrow or Remove the Exemption.* These respondents were of the view that the exemption for limited circumstances where physical presence is required should be removed entirely or be more precisely worded so that the intended scope of exemption is clear. Respondents noted that the exemption may be used to justify use of component auditors in more complex situations than intended and suggested being more explicit about limiting it to specific circumstances such as only for the verification of an asset (including an inventory count), or only where financial records are located in one central location (i.e., with group management). Other respondents noted more generally that the exemption may be difficult to interpret and apply.

Disagree With a Prohibition for Component Auditors

13. Respondents who disagreed with a prohibition for component auditors noted that the auditor should use a principles-based approach and use professional judgment in determining the complexity of the entity in accordance with the qualitative characteristics. Respondents noted that:
- (a) *Component Auditors not a Proxy for Complexity.* The use of component auditors is not a proxy for complexity, noting their use may not be uncommon in an audit of a typical LCE and the prohibition is not logical or appropriate. Respondents also noted that it may unfairly impacting certain Small and Medium Practices (SMP) or firms that are not part of larger networks.
 - (b) *Complexity of Entity Not Audit.* The focus should be on the complexity of the entity and not on the audit. Respondents noted a prohibition that is not directly linked to the complexity of the entity is inconsistent with the approach in the Authority and may result in inappropriate decisions being made (e.g., not using a component auditor so they can continue to use the proposed ISA for LCE).

¹ International Standard on Auditing (ISA) 600 (Revised), *Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)*

- (c) *Would Limit Adoption.* The prohibition would limit the adoption of the standard in a number of jurisdictions where use of component auditors is common in audits of LCEs.
- (d) *Adds Complexity to Decision-Making.* The prohibition adds too much complexity into the decision-making process, including in determining whether an auditor is a component auditor and if their involvement relates to a circumstance where physical presence may be needed.

Requests for Clarification or Guidance on Definitions

- 14. In addition to providing views on the prohibition relating to component auditors, respondents requested further guidance or clarification more generally, on what would be considered a component auditor (in particular, where an auditor is a group auditor rather than a component auditor).
- 15. Respondents also asked for examples or guidance on what situations would be interpreted as requiring “physical presence” other than the inventory observations and inspecting physical assets.

The Task Force Views and Recommendations

Prohibitions Relating to the Use of Component Auditors

- 16. In deciding whether to propose revisions, the Task Force discussed the following different viewpoints and examples provided by respondents as set out in paragraph 12(b)-(c):

Suggestion to Expand Exemption Relating to Physical Presence

- (a) *Specific Skills, Knowledge or Expertise are Needed.* The Task Force notes that it is hard to draw a clear line and drive consistent judgment when the exemption is expanded to include any situations where specific skills, knowledge or expertise are needed. In addition, when considering a typical LCE, the Task Force is of the view that it would not be common to need specific skills, knowledge or expertise. This is consistent with the discussions with the Board during finalization of ED-ISA for LCE-Group Audits.
- (b) *Laws and Regulations.* The Task Force is of the view that this situation is not common to occur and would generally be indicative of complexity and that situations where laws and regulations prevent remote access would contradict the following qualitative characteristic included in the Authority: “There are no specific laws or regulations that govern the business activities that add complexity.”
- (c) *Other Specific Audit Procedures.* The Task Force noted that most of the examples (e.g., inspection of documents, obtaining confirmations, site visits) raised by respondents would already be included under the exemption as included in the ED-ISA for LCE-Group Audits. Therefore, the Task Force was of the view that clarification would be useful and discussed whether more examples should be added in the Authority (i.e., in addition to the examples of attending a physical inventory count or inspecting physical assets). The Task Force noted that adding more examples to the sentence may give the impression the list is a complete list, but acknowledged that a different type of example may be useful. Therefore, the Task Force added clarification that inspection may also be of documents and records (the most common additional example provided by respondents). The Task Force is further of the view that additional examples could be provided in the Authority Supplemental Guide.

- (d) *Specific Audit Procedures Generally.* The Task Force is of the view that expanding the exemption to allow the use of component auditors for all specific audit procedures would be opening the prohibition too much and would not be consistent with the nature of a typical LCE (see also paragraph 18 below).
- (e) *Procedures at a Shared Service Center at a Remote Location.* The Task Force noted that it would not be common for component auditors to perform procedures at a shared service center for a typical LCE and that it would be more likely that the group auditor performs procedures themselves. This assumption is consistent with the considerations made on service organizations (i.e., auditors may obtain type 1 or type 2 reports and use it for their general understanding of the entity, but the audit procedures to obtain audit evidence on the entity's use of service organizations will be performed by the auditor for a typical LCE).

Suggestion to Narrow or Remove Exemption Relating to Physical Presence

- 17. The Task Force noted that a key reason that respondents suggested narrowing or removing the exemption was to address concerns regarding inconsistent interpretation of the exemption. The Task Force is of the view that the Authority Supplemental Guide may provide further clarity on when the exemption may be applied and so may address this concern. The Task Force also noted that, on balance, respondents were of the view that the exemption should remain as per the exposure draft or be expanded, and so is of the view that narrowing or removing the exemption would not be responsive to the overall feedback heard.

Suggestion to Remove Prohibition Relating to Component Auditors

- 18. Relating to the respondents' comments that there should not be prohibition relating to component auditors, the Task Force has the following views:

- (a) *Component Auditors not a Proxy for Complexity.* The Task Force acknowledges that the use of component auditors is not always a proxy for complexity. However, the Task Force still has the view that, generally, component auditors are more often used in more complex groups. In addition, to acknowledge the fact that the use of component auditors is not a proxy for complexity, the proposed prohibition includes an exemption where component auditors may be used for LCEs. This is intended to address the most common scenarios where the use of component auditors is not linked to complexity.

The Task Force discussed respondents' concern that the prohibition may unfairly impact certain SMPs or firms that are not part of larger networks but has the view that this should not be relevant since component auditors may be from a network firm, a firm that is not a network firm, or the group auditor's firm (e.g., another office within the group auditor's firm) (as per ISA 600 (Revised) paragraph A21).

- (b) *Complexity of Entity Not Audit.* The Task Force acknowledges that to be consistent with the design of the Authority more generally the focus should be on the complexity of the entity and not on the audit. However, as mentioned at paragraph 18(a) the Task Force is of the view that generally component auditors are more often used in more complex groups. Therefore, the Task Force is of the view that prohibiting the use of component auditors is consistent with the nature and circumstances of a typical LCE that the proposed standard is intended to be designed for. The Task Force also notes that, similar to the quantitative thresholds included in

the Authority, the prohibition may serve as an additional ‘safeguard’ to limit the range of entities perceived to be within the scope of the proposed standard, in particular groups that are likely to be more complex but may not already have been scoped out through the evaluation of qualitative characteristics.

- (c) *Would Limit Adoption.* The Task Force is of the view that, when considering the other limitations set out in the Authority, the prohibition relating to component auditors would not significantly further restrict the groups that may use the proposed standard. The Task Force also considered the pervasive feedback on the ED-ISA for LCE that the Authority should be clear, more specific and involve less judgment, in order to be operable and accepted by regulators and other stakeholders.
- (d) *Adds Complexity to Decision-Making.* The Task Force notes that one of the key reasons for setting the prohibition relating to component auditors was to allow for a clearer cut-off about whether you can use the standard or not. The Task Force acknowledges that more guidance or clarification may be needed. See paragraph 19 below.

Clarification or Guidance on Definitions

- 19. Regarding respondent’s requests for clarifications on what a component auditor is, the Task Force is of view that this should be addressed through EEM and in the Authority Supplemental Guide. Therefore, the Task Force added EEM clarifying the definition of component auditor under paragraph A.1. This EEM is based on ISA 600 (Revised) paragraphs A21 and A22. The Task Force is of view that more specific examples to illustrate whether an auditor is a component auditor may be included into the Authority Supplemental Guide.
- 20. In addition, the Task Force proposes to add the definition of group auditor to the Glossary of the ISA for LCE. As described in paragraph 25 of the EM, during development of the ED-ISA for LCE-Group Audits, the IAASB concluded that it was not necessary to use the term “group” when referring to the auditor. However, taking into account respondent’s requests for clarifications on what a component auditor is, the Task Force is of the view that adding the definition of group auditor may help to reduce confusion and would add clarity to the added EEM under paragraph A.1. In particular, given that the definition of a group auditor makes it clear that if the auditor is a group auditor, they are then not a component auditor.² Given the addition of the definition of group auditor, the Task Force made changes throughout the Authority and Part 10.
- 21. The Task Force is of the view that examples or guidance on what situations would be interpreted as requiring “physical presence” should go into the Authority Supplemental Guide. The Task Force is of the view that the examples provided by respondents described at paragraph 16 could be used.

² Group auditor—The group engagement partner and members of the engagement team other than component auditors. The group auditor is responsible for:

- (a) Establishing the overall group audit strategy and group audit plan;
- (b) Directing and supervising component auditors and reviewing their work;
- (c) Evaluating the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the group financial statements.

Summary of Recommendations

22. Based on the considerations above, the Task Force proposes not to change the prohibition in paragraph A.1. (d) (ii) of the Authority. To support the users of the proposed standard, the Task Force recommends providing additional guidance in the proposed standard and supplemental guidance.

Matters for Board Consideration

1. The Board is asked for their views on proposed way forward, not to make changes to the prohibition related to the use of component auditors (i.e., paragraph A.1. (d) (ii) in the Authority) and the revisions to the EEM under paragraph A.1. in the Authority as presented in **Agenda Item 1-A**.

II. Qualitative Characteristics Used to Describe the Scope of Group Audits)

Background

23. The section below summarizes question 2, the themes noted for the responses and the initial responses and recommendations proposed by Staff for discussion with the Task Force as presented in **Supplement 1-01 to Agenda Item 1**.
24. As explained in the EM of ED-ISA for LCE-Group Audits, the IAASB developed “group-specific” qualitative characteristics for areas of complexity for a group that were not deemed to be already addressed by the qualitative characteristics already included in the Authority. Question 2 asked respondents of their views on these additional characteristics proposed to be included in the Authority.

What We Heard

Numerical Indicators

25. Respondents noted that numerical indicators included in the qualitative characteristics may be seen as defined rules, rather than example indicators on which auditors need to apply professional judgment. Some respondents were also of the view that the numerical indicators included were too restrictive, limiting the applicability and adoption of the proposed ISA for LCE. They noted that the assessment of characteristics should be focused on complexity arising from these characteristics rather than a number (i.e., number of entities or business units, or number of jurisdictions).

Group Structure and Activities – Jurisdictions

26. Respondents noted the number of jurisdictions in which the group is active does not necessarily affect the complexity of a group. Rather, it was noted that matters such as differences in legislation, tax requirements, language, currency and customs as well as the remote location of personnel and accounting records affect the complexity of a group. Respondents also gave examples of common economic zones where an entity may have presence in multiple jurisdictions, but with little complexity.

Consolidation Process

27. Respondents noted that some of the examples included to explain a simple consolidation process do not increase the complexity of the consolidation process. More specifically, they noted:

- (a) *Accounting policies:* Respondents noted that LCEs often apply local Generally Accepted Accounting Principles as opposed to International Financial Reporting Standards. This could lead to small differences in accounting policies applied in the financial reporting process within a group that is located across different jurisdictions. Respondents noted that, as transactions are not complex in a typical LCE, the reconciliation between different accounting policies is deemed simple and therefore having different accounting policies should not limit the use of the proposed ISA for LCE.
- (b) *Period-end:* Respondents noted that when differences between reporting periods are small (e.g., a few months), the auditor should be allowed to use the ISA for LCE as these differences can be audited relatively simple.
- (c) *Sub-consolidations:* Respondents noted that it is not unusual to have sub- consolidations in an LCE as entities may have set up components for tax purposes. Often these are simple consolidations, as some components may be dormant companies with no or very limited transactions.

Other Matters

28. In addition, respondents had various suggestions on how to enhance the qualitative characteristics, including the following:
- (a) Other factors to be included as qualitative characteristics: Respondents noted a few areas where there could be increased complexity. They noted matters such as changes in the organizational structure (e.g., acquisitions and disposals), regulatory factors, ownership, related parties, and nature and complexity of IT systems used within the group.
 - (b) Assessment of qualitative characteristics and professional judgment: Respondents suggested to clarify that the qualitative characteristics should be considered individually and in combination, and that no single qualitative characteristic is sufficient by itself to support the adoption of the proposed ISA for LCE. In addition, respondents requested to clarify that professional judgment should be applied when evaluating the qualitative characteristics.
 - (c) Additional guidance: To help with implementation and consistent application of the Authority, respondents asked for additional guidance and examples in the EEM.
 - (d) Wording: Respondents noted that the word “Few” is unclear and could lead to misinterpretation.

The Task Force Views and Recommendations

Numerical Indicators

29. The Task Force discussed the inclusion of the numerical indicators in the additional characteristics relevant for group audits and noted that numerical indicators are included in other qualitative characteristics (i.e., not just those specific to group audits). The inclusion of such indicators was previously agreed upon by the Board in order to address feedback on the ED-ISA for LCE that the Authority needed to be more specific and clear to what the IAASB believes to be a typical LCE. Even though it was never intended to be a defined rule, the Task Force agrees that it may perceived so and therefore revised paragraph A.3. to specifically highlight that numerical indicators are provided as examples only.

Group Structure and Activities – Jurisdictions

30. Based on respondents' comments, the Task Force changed the description of the characteristic related to jurisdiction to instead describe characteristics of complexity, rather than only the number of jurisdictions. The Task Force noted that considerations relating to the environment described in ISA 600 (Revised) paragraph 7 (i.e., laws and regulations, business practices, language and culture) were consistent with the examples provided by respondents as to the causes of complexity relevant to an LCE. Respondents also suggested that different currencies may cause complexity but the Task Force is of the view that this complexity was already considered in other qualitative characteristics (e.g., relating to the consolidation process) and may not necessarily be a matter that is making the group more complex.
31. Taking into account respondents' comments regarding common economic zones consisting of multiple jurisdictions but with little complexity, the Task Force also added a reference to such zones in order to not inappropriately exclude the use of the ISA for LCE in these situations.

Consolidation Process

32. The Task Force agreed with respondents that the reconciliation between different accounting policies could be simple and therefore proposes revision to the first bullet point to reflect the view that a simple consolidation process could include similar (but not the same) accounting policies.
33. Based on respondents' comments, the Task Force also removed the bullet related to sub-consolidations. The Task Force acknowledged that sub-consolidations may not always be complex and is of the view that related complexity is addressed more generally in the description of the qualitative characteristics (i.e., a simple consolidation process where consolidation adjustments are not complex) and so including as a specific consideration was not deemed necessary.

Other Matters

34. In responses to the matters noted in paragraph 28, The Task Force responded as follows:
 - (a) Other factors to be included as qualitative characteristics: The Task Force is of the view that the suggested factors are already included in the Authority, as part of the qualitative characteristics that are not specific to group audits and therefore the Task Force decided not to make the suggested changes. The Task Force noted that the extract of the Authority provided for the ED-ISA for LCE-Group Audits did not include the full Authority (including the qualitative characteristics that are not specific to group audits) which may explain some of the respondents' requests for clarification or guidance in this area.
 - (b) Assessment of qualitative characteristics and professional judgment: The Task Force is of the view that the wording included in paragraph A.3. and in the EEM following the tables under A.3. makes it clear that the qualitative characteristics should be considered individually and in combination, and that professional judgment is to be applied by the auditor when evaluating an entity for use of the ISA for LCE. The Task Force noted that the extract of the Authority provided for the ED-ISA for LCE-Group Audits did not include the full Authority (including paragraph A.3.), which may explain some of the respondents' requests for clarification or guidance in this area.

- (c) Additional guidance: The Task Force does not propose to include further examples or guidance to the Authority and instead include examples and more guidance in the Authority Supplemental Guide. This is consistent with the approach taken to the Authority more generally.
- (d) Wording update: The Task Force noted that the word “few” is used in different places in the Authority, including in the qualitative characteristics to be assessed by auditors of “non-group” audit engagements. For consistency purposes, the Task Force did not propose any changes.

Matters for Board Consideration

- 2. The Board is asked for their views on proposed revisions to the qualitative characteristics as presented in **Agenda Item 1-A**.

III. Proposed Part 10 and Conforming Amendments

Background

- 35. The section below summarizes question 3 (i.e., views on the proposed Part 10 requirements and conforming amendments), the themes noted, and the initial responses and recommendations proposed by the Task Force for discussion with the Board as presented in **Supplement 1-01 to Agenda Item 1**.

What We Heard

- 36. Generally, respondents supported the requirements and EEM included in Part 10 noting that the related requirements in ISA 600 (Revised) have been appropriately integrated into ISA for LCE.
- 37. However, respondents had some suggestions on how to enhance Part 10, including the following:
 - (a) *Objective*: Respondents noted that the objective in ISA 600 (Revised) also addresses engagement acceptance and continuance, and the evaluation of whether sufficient appropriate audit evidence has been obtained. Respondents questioned why those objectives were not included in Part 10.
 - (b) *Planning Activities*: Respondents noted that the reference to the possible effects in paragraph 10.2.2. is vague and recommended providing more guidance on what these possible effects might be based on the guidance included in paragraph A36 of ISA 600 (Revised).
 - (c) *Materiality*: Respondents noted that no guidance is included for determining materiality for a non-controlling interest in an entity that is accounted for by the equity method and suggested including guidance similar to ISA 600 (Revised), paragraph A119.
 - (d) *Understanding the Group*: Respondents suggested to add a requirement for the auditor to obtain an understanding of the IT systems. They noted that this requirement can be found in ISA 600 (Revised).
 - (e) *Specific Communication Requirements*: Respondents noted that requirement in paragraph 10.7.1. is duplicative of paragraph 1.8.6. and therefore, suggested to delete paragraph 10.7.1.
 - (f) *Documentation*: Respondents questioned whether the documentation requirements should include the justification for the use of component auditors, if any, and why their physical presence was required. It was also noted that the understanding of the group’s system of

internal control should be documented in the audit file since paragraph 10.4.1(b) specifically requires to obtain an understanding of the group's system of internal control. This is similar to paragraph 59(e) of ISA 600 (Revised).

Conforming Amendments

38. Respondents agreed with the proposed amendments to the illustrative Independent Auditor's Report included in Part 9.³ However, they noted that footnotes are easily overlooked and therefore suggested to include the requirement directly in the auditor's report.

The Task Force Views and Recommendations

39. The Task Force discussed the following matters highlighted in paragraph 37 and decided the following:
- (a) *Objective*: The Task Force decided not to make a change regarding the objective requirements in response to respondents' comments as set out in paragraph 22(a) above. The Task Force is of the view that it is not necessary to change the objective as some of the objectives of ISA 600 (Revised) are addressed in other Parts and Part 10 does not address engagement acceptance and the evaluation of whether sufficient appropriate audit evidence has been obtained.
 - (b) *Planning Activities*: The Task Force noted that paragraph A36 in ISA 600 (Revised) describes matters that would not allow the use of the ISA for LCE and therefore did not add any further guidance.
 - (c) *Materiality*: The Task Force decided not to include requirements related to equity accounted investments as the Task Force is of the view that such investments will be unlikely for a typical LCE.
 - (d) *Understanding the Group*: The Task Force agreed with respondents and revised paragraph 10.4.1. (a) to include the understanding of the IT systems (based on a suggestion from a respondent).
 - (e) *Specific Communication Requirements*: The Task Force reviewed the requirement under paragraph 1.8.6., which includes a requirement to report matters to the appropriate level of management. The Task Force is of the view that for a group audit, the requirement under 1.8.6. implies communicating to the group management. The Task Force removed paragraph 10.7.1.
 - (f) *Documentation*. The Task Force is of the view that a specific documentation requirement as described in paragraph 37(f) is not needed as the decision on whether or not to use component auditors is part of planning the audit and would be documented as part of required documentation requirements in Part 2⁴ and Part 5.⁵ The Task Force did add a requirement for the auditor to document its understanding of the group's system of internal control (see paragraph 10.8.1.(c)).

³ Part 9, *Forming an Opinion and Reporting*

⁴ Part 2, *Audit Evidence and Documentation*

⁵ Part 5, *Planning*

40. In addition to the matters in paragraph 39, the Task Force made several changes to Part 10, which are explained in **Appendix 2**.
41. The Task Force noted that the illustrative Independent Auditor's Report includes multiple footnotes to explain the different requirements and suggests keeping the footnote for group audits for consistency purposes. The Task Force is of the view that the concern raised by respondents could be addressed by including an illustrative auditor's report related to a group audit in the Reporting Supplemental Guide.

Matters for Board Consideration

3. The Board is asked for their views on proposed revisions to Part 10 and conforming amendments as presented in **Agenda Item 1-A**.

IV. Next Steps

42. In September 2023, the Task Force will present to the Board for approval a full draft of the proposed ISA for LCE. In addition, the Task Force will present the responses to questions included in the EM that have not been previously discussed with the Board.
43. The Task Force will continue to consult with the LCE Reference Group and perform outreach with other stakeholders as relevant.

Task Force Members and Activities

Task Force Members

1. The Task Force consists of the following members:
 - Kai Morten Hagen, IAASB Member and Task Force Chair
 - Julie Corden, IAASB Member
 - Chun Wee Chiew, IAASB Member
 - Sachiko Kai, IAASB Member
 - Vivienne Bauer, IAASB Technical Advisor
2. Further information and all posted documents relating to this project can be found [here](#).

Task Force Activities Since the June 2023 IAASB Meeting

3. The Task Force held one virtual meeting.

Explanation of Significant Changes to Proposed ISA for LCE (Group Audits)

This paper explains the significant changes and the rationale for the changes that have been made to targeted areas of the ISA for LCE related to Group Audits. The changes are explained from the ED-ISA for LCE-Group Audits.

The changes are reflected in the marked draft in **Agenda Item 1-A**.

Authority

Paragraph	Significant Changes and the Rationale for Those Changes
Specific Prohibitions	
EEM under A.1.	<ul style="list-style-type: none"> See paragraphs 19-20 of this issues paper. In addition, the Task Force updated the content of footnote 1 to align the definition of component with the definition included in the Glossary of Terms.
Qualitative Characteristics	
Group Structure and Activities	<ul style="list-style-type: none"> See paragraphs 30-31 of this issues paper.
Consolidation Process	<ul style="list-style-type: none"> See paragraphs 32-33 of this issues paper.

Part 10 – Audits of Group Financial Statements

Paragraph	Significant Changes and the Rationale for Those Changes
10.2. Planning Activities	
Introductory Box	<ul style="list-style-type: none"> The Task Force added clarification that throughout Part 10, the use of the term “auditor” should be read as the “group auditor” based on the proposal to include the definition of “group auditor” in the Glossary as described in paragraph 20 of this issues paper.
10.2. Planning Activities	
EEM under 10.2.1.	<ul style="list-style-type: none"> The Task Force added additional factors related to location of a component as the Authority scopes in multi-jurisdictional group. This requirement is based on ISA 600 (Revised),⁶ paragraph 7.
10.4. Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group’s System of Internal Control	
10.4.1.	<ul style="list-style-type: none"> See paragraph 39(d) of this issues paper The Task Force added a requirement for the auditor to obtain an understanding of the applicable financial reporting framework and the consistency of accounting policies and practices across the based on the proposed changes to the Authority. This requirement is based on ISA 600 (Revised), paragraph 30 (b). The Task Force added a requirement for the auditor to obtain an understanding of communication process between the group management and the management of entities pertaining to significant matters. The requirement is based on ISA 600 (Revised), paragraph 30 (c).
10.6. Responding to the Assessed Risks of Material Misstatement	
EEM under 10.6.1.	<ul style="list-style-type: none"> Based on respondents’ suggestion, the Task Force moved the guidance related to central procedures at the beginning of the EEM. This change aligns the order of the EEM with the order if the application material in ISA 600 (Revised) and

⁶ ISA 600 (Revised), *Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)*

Paragraph	Significant Changes and the Rationale for Those Changes
	puts the emphases on performing procedures centrally as the Task Force is of the view that this is generally the case for a typical LCE.
10.7. Specific Communication Requirements	
10.7.1.	<ul style="list-style-type: none"> See paragraph 39(e) of this issues paper
10.8. Specific Documentation Requirements	
10.8.1. (c)	<ul style="list-style-type: none"> See paragraph 39(f) of this issues paper

Conforming Amendments Arising from Proposed Part 10

Paragraph	Significant Changes and the Rationale for Those Changes
Glossary of Terms	
Group Auditor	<ul style="list-style-type: none"> See paragraph 20 of this issues paper.

Appendix 3

List of Respondents to ED-ISA for LCE-Group Audits

No.	Respondent	Region
Regulators and Audit Oversight Authorities		Total: 5
1.	Committee of European Auditing Oversight Bodies (CEAOB)	Europe
2.	Financial Reporting Council – United Kingdom (FRC)	Europe
3.	Independent Regulatory Board for Auditors (IRBA)	Middle East and Africa
4.	Irish Auditing and Accounting Supervisory Authority (IAASA)	Europe
5.	Malaysia Audit Oversight Board (MAOB)	Asia Pacific
National Auditing Standard Setters		Total: 11
6.	American Institute of Certified Public Accountants (AICPA)	North America
7.	Australian Auditing and Assurance Standards Board (AUASB)	Asia Pacific
8.	Austrian Chamber of Tax Advisors and Public Accountants (KSW)	Europe
9.	Botswana Accountancy Oversight Authority (BAOA)	Middle East and Africa
10.	Canadian Auditing and Assurance Standards Board (CAASB)	North America
11.	Compagnie Nationale des Commissaires aux Comptes (CNCC) and Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)	Europe
12.	Hong Kong Institute of Certified Public Accountants (HKICPA)	Asia Pacific
13.	Institut der Wirtschaftspruefer in Deutschland (IDW)	Europe
14.	Japanese Institute of Certified Public Accountants (JICPA)	Asia Pacific
15.	Malaysian Institute of Accountants – Auditing and Assurance Standards Board (MIA)	Asia Pacific
16.	Public Accountants and Auditors Board Zimbabwe (PAABZ)	Middle East and Africa

No.	Respondent	Region
Accounting Firms⁷		Total: 13
17.	Baker Tilly International* (BT)	Global
18.	BDO International* (BDO)	Global
19.	Deloitte Touche Tohmatsu* (DTT)	Global
20.	Ernst & Young Global* (EYG)	Global
21.	Grand Thornton International* (GT)	Global
22.	KPMG IFRG* (KPMG)	Global
23.	Mazars*	Global
24.	MNP	North America
25.	PKF International* (PKF)	Global
26.	Price Bailey	Europe
27.	PriceWaterhouseCoopers International* (PWC)	Global
28.	RSM International*	Global
29.	Samenwerkende Registeraccountants en Accountants-Administratieconsulenten (SRA)	Europe
Public Sector Organizations		Total: 2
30.	Auditor General of Alberta (AGA)	North America
31.	United States Government Accountability Office (GAO)	North America
Member Bodies and Other Professional Organizations		Total: 28
32.	Accountancy Europe (AE)	Europe
33.	ASSIREVI	Europe

⁷ Forum of Firms members are indicated with a *. The Forum of Firms is an association of international networks of accounting firms that perform [transnational audits](#).

No.	Respondent	Region
34.	Association of Practicing Accountants (APA)	Global
35.	Botswana Institute of Chartered Accountants (BICA)	Middle East and Africa
36.	Chamber of Auditors of the Czech Republic (CACR)	Europe
37.	Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants (CAANZ-ACCA)	Global
38.	Chartered Accountants Ireland (CAI)	Europe
39.	Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (CNDCEC)	Europe
40.	CPA Australia (CPAA)	Asia Pacific
41.	CPA Ireland (CPAI)	Europe
42.	European Federation of Accountants and Auditors (EFAA)	Europe
43.	EXPERTsuisse (ES)	Europe
44.	Federation of Accounting Professions of Thailand (FAPT)	Asia Pacific
45.	Institute of Chartered Accountants in England and Wales (ICAEW)	Europe
46.	Institute of Chartered Accountants of Nigeria (ICAN)	Middle East and Africa
47.	Institute of Chartered Accountants of Scotland (ICAS)	Europe
48.	Institute of Singapore Chartered Accountants (ISCA)	Asia Pacific
49.	Instituto de Auditoria Independente do Brasil (IBRACON)	South America
50.	Instituto Mexicano de Contadores Públicos (IMCP)	North America
51.	International Federation of Accountants' Small and Medium Practices Advisory Group (SMPAG)	Global
52.	Korean Institute of Certified Public Accountants (KICPA)	Asia Pacific
53.	Malaysian Institute of Certified Public Accountants (MICPA)	Asia Pacific
54.	Malta Institute of Accountants (MIA)	Europe

No.	Respondent	Region
55.	National Institute of Public Accountants of Colombia (INCP)	South America
56.	Nordic Federation of Public Accountants (NRF)	Europe
57.	Pan-African Federation of Accountants (PAFA)	Middle East and Africa
58.	South African Institute of Chartered Accountants (SAICA)	Middle East and Africa
59.	Wirtschaftsprüferkammer (WPK)	Europe
Individuals and Others		Total: 1
60.	John Kelly (JK)	North America