

# Supplement 1-01 to Agenda Item 1

## Audits of Less Complex Entities – ED-ISA for LCE – Group Audits

### 0. Overall Comments\ d. Other Comments (not mapped to questions)

### 3. Regulators and Audit Oversight Authorities

#### Committee of European Auditing Oversight Bodies (CEAOB)

##### Overall comments and concerns

In its letter dated 24 January 2022, the CEAOB supported the efforts to understand and consider issues regarding the audit of smaller or less complex entities that had been raised by auditors in some jurisdictions. However, both the exposure draft prepared by the IAASB on that topic in 2021 and the current ED raise significant concerns for the CEAOB, as detailed below and in our letter of 24 January 2022.

We continue to stress that the CEAOB remains uncertain as to the benefits of issuing a separate standard for LCE audits since this will create two different categories of audits, thereby fragmenting the audit market.

In addition, we believe that the co-existence of two “sets” of auditing standards raises questions regarding the “value” of an opinion based on the ISA for LCE compared to one based on the full set of ISAs. In particular, we continue to stress that the proposal in the previous ED to issue an opinion referring to the use of ISA for LCE means that it will not be clear to users if the same level of assurance is provided when the ISA for LCE rather than the full ISAs is referred to in the audit report.

Consequently, the CEAOB continues to recommend that the IAASB considers issuing guidelines for LCE audits as a supplement to the current ISAs instead of a standalone ISA for LCE.

For the reasons expressed in the CEAOB letter dated 24 January 2022, which continue to be of concern to us, the CEAOB furthermore expresses strong reservations regarding the use of the ISA for LCE in a group audit situation.

In particular, our comments and concerns related to the scope of applicability, the achievement of the IAASB's objectives and the absence of transition regime from LCE to non LCE audits remain relevant.

The ED proposal to permit application of the ISA for LCE to groups further emphasises the importance of guidance on how to transition from the ISA for LCE to the full ISAs and when this should be done. For example if a less complex group acquires a subsidiary during the year, the use of the ISA for LCE may no longer be appropriate.

However, if the IAASB decides to further develop an ISA for LCE despite our previous comments, we have provided some points for your consideration on the content of the current additional ED below.

##### Conclusion

We remain of the view that the ISA for LCE should not be issued. Rather, the IAASB should utilise its work on understanding and considering issues that have been raised in various jurisdictions in relation to audits of LCE to identify alternative solutions, such as issuing scalability guidance for audits of LCE. If the IAASB proceeds to issue the ISA for LCE, the comments in both this letter and our letter of 24 January 2022 merit detailed consideration to ensure that the public interest and audit quality are fully considered in this project.

### Independent Regulatory Board for Auditors – South Africa (IRBA)

#### A. GENERAL COMMENTS

The IRBA supports the IAASB's decision for the inclusion of group audits in the future LCE standard because not all group audits are complex. The IRBA's view is conditional though on addressing (a) The detailed comments provided on the subject of groups in our comment letter dated 7 February 2022, (b) the substantive comments included in this letter, and (c) a reconsideration post-exposure of the combined future LCE standard.

We consider it unusual that the Explanatory Memorandum to the Exposure Draft has not explicitly shared the IAASB's application of the Monitoring Group's public interest framework to support its decision to develop this proposed Chapter 10. Such insights, matched with the PIOB's list of public interest issues, would be relevant to regulators and standard setters around the world as we progress this project through local standard setting processes. We therefore encourage the IAASB to consider such matters for inclusion in future publications, to demonstrate to its readers and users the attention it has dedicated to the relevant public interest issues.

This approach of releasing this proposed Chapter 10, while Chapters 1 to 9 are being revised based on the public comments from the exposure process is agile, but possibly unprecedented. Respondents such as ourselves are therefore committing to comment on Proposed Chapter 10, without an idea of where the Board will land on its previous exposure draft, and in particular how public interest, technical and professional issues raised by respondents will be addressed in the future LCE standard. We encourage the IAASB therefore to carefully consider the serious need for re-exposure of a future LCE standard, should the IAASB vote to approve a future LCE standard.

We suggest that the IAASB considers the following matters, as it continues with finalising the future LCE standard, and/or Chapter 10:

Refer to and consider our response to the 2021 Exposure Draft, “Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (Exposure Draft ISA for LCE). In that response, we suggested that as an alternative approach to the proposed ISA for LCE, the IAASB should rather focus on the second workstream of the project that relates to developing drafting principles for the ISAs, to reduce complexity and improve understandability, scalability and proportionality of the ISAs (the CUSP project). ISAs that have been recently issued – such as ISA 315 (Revised), ISA 540 (Revised) and the new and revised Quality Management Standards// – contain application material to assist in the audit of less complex entities and more complex entities. In a similar approach, the IAASB, through the CUSP project, can update the ISAs to ensure that they are suitable for application to the audit of LCEs. This approach would avoid many of the possible unintended consequences that we foresee could result from a separate standalone standard.

Therefore, our inputs to the specific questions raised below are subject to satisfactory resolution of the concerns raised in our previous response to the Exposure Draft: ISA for LCE dated 7 February 2022.

## **Irish Auditing and Accounting Supervisory Authority (IAASA)**

### **Overall Comments and Concerns**

Both the exposure draft of the ISA for LCE published in 2021 and the current ED raise significant concerns, as detailed below and in our letter of 26 January 2022.

We remain uncertain as to the benefits of issuing a separate standard for LCE audits since this will create two different categories of audits, thereby fragmenting the audit market.

In addition, the co-existence of two sets of auditing standards raises questions regarding the value of an opinion based on the ISA for LCE compared to one based on the full set of ISAs. In particular, the proposal in the previous ED to require an opinion that references use of ISA for LCE means that it will not be clear to users if the same level of assurance is provided when the ISA for LCE rather than the full ISAs is referred to in the audit report.

Consequently, IAASA continues to recommend that the IAASB considers issuing guidelines for LCE audits as a supplement to the current ISAs instead of a standalone ISA for LCE.

In addition, the ED proposal to permit application of the ISA for LCE to groups further emphasises the importance of guidance on how to transition from the ISA for LCE to the full ISAs and when this should be done. For example if a less complex group acquires a subsidiary during the year, the use of the ISA for LCE may no longer be appropriate.

If the IAASB proceed with its proposal to issue an ISA for LCE, we have provided some points for consideration on the content of the current ED below.

### **Conclusion**

The IAASB should utilise its work on understanding and considering issues that have been raised in various jurisdictions in relation to audits of LCE to consider alternative solutions, such as issuing scalability guidance for audits of LCE. If the IAASB proceeds to issue the ISA for LCE, the comments in both this letter and our letter of 26 January 2022 merit detailed consideration to ensure that the public interest and audit quality are fully considered in this project.

## **Malaysia Audit Oversight Board (MAOB)**

The Audit Oversight Board, Malaysia (“AOB”) would like to reiterate that the AOB’s stand that the long-established International Standard on Auditing (“ISAs”) has proven that ISAs are scalable to be applied in audits of all types of entities which include group audits.

In relation to the proposed part 10 of the ISA for LCE, the AOB is of the view that the requirements in the ISA 600 (Revised) Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors) which will be effective for audits of financial statements for periods beginning on or after 15 December 2023 are sufficient as it has been designed to apply on all group audits, regardless of size or complexity.

Furthermore, the AOB would like to caution that the proposed expansion to the authority of the ISA for LCE will confuse auditors on circumstances where the application of ISA for LCE is allowed and lead to diversification in the application of ISAs.

## **4. National Auditing Standard Setters**

### **American Institute of Certified Public Accountants (AICPA)**

Lack of Availability of Current Working Draft of the ISA for LCE

In considering the proposed Part 10, respondents’ understanding of the proposal would have been enhanced if the entire current draft of the proposed ISA for LCE had been made available for consideration (if not comment). For example, while the summary of changes that the IAASB has made thus far to the Authority since ED-ISA for LCE is helpful, it would have been significantly more helpful if the entire text of the revised Authority was presented – in track changes from ED-ISA for LCE.

IAASB’s Plan with Respect to Potential Re-exposure of ED-ISA for LCE

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We noted the statement in paragraph 7 of the explanatory memorandum which states “The IAASB plans to approve the ISA for LCE at its December 2023 meeting.” We interpret this statement to mean that the IAASB does not see a need to expose the complete revised proposed ISA for LCE for additional comment.

While we can accept that the IAASB does not see a need to expose the full revised proposed ISA for LCE for additional comment, we strongly urge the IAASB to expose significant changes to the ED-ISA for LCE along with the changes to the Authority Document. The exposure draft could be structured in a manner similar to how the IAASB Task Force presented Agenda item 6-A as part of the material presented for the IAASB’s March 2023 meeting. Based on our understanding of the nature and significance of the revisions to ED-ISA for LCE, the significant changes to ED-ISA for LCE should be exposed for the following reasons:

Without exposure of the significant changes to ED-ISA for LCE, due process will not have been followed. Several public comments were made when the ED-ISA for LCE was issued in 2021 that the ED was not at a stage that the IAASB would typically require for exposure and that consultation from stakeholders was needed in order to progress the standard. Due process would not be followed unless, at a minimum, the significant changes to ED-ISA for LCE are exposed once the draft of the proposed standard is at a stage where the IAASB would typically expose a proposed standard. In our understanding, that would be at the stage where IAASB members would be comfortable issuing the standard as final without additional revisions. Exposure of the significant changes to ED-ISA for LCE would enhance global support and acceptance of the final standard. Several jurisdictions have issued, or are in the process of developing, their own standards related to audits of less complex entities. Many of those alternative standards were not available when ED-ISA for LCE was initially exposed in 2021.

Stakeholders should have the opportunity to consider approaches taken in those alternative standards and benchmark against the significant changes to ED-ISA for LCE in order to provide the IAASB with appropriate feedback. In addition, the IAASB needs to understand whether local jurisdictions would be able to operationalize the ED-ISA for LCE and those jurisdictions cannot be expected to make that determination without seeing and considering, at a minimum, the significant changes to ED-ISA for LCE.

Anything less than exposure of the significant changes to ED-ISA for LCE is not in the public interest and results in a lack of transparency and may diminish global support and acceptance of the final standard.

Because of these reasons, we urge the IAASB to publicly communicate a timeline for potential issuance of the ISA for LCE that includes an additional exposure period of the significant changes to ED-ISA for LCE.

Additionally, if the IAASB determines that exposure of the complete revised proposed ISA for LCE is not necessary, it is important that the next time a revised draft of ISA for LCE is presented to the IAASB members, it be marked to show changes from ED-ISA for LCE.

#### IAASB’s Plan with Respect to Updating ISA for LCE

Given that the IAASB currently has several significant open projects that are likely to impact audits of LCEs – such as audit evidence, fraud, and going concern, we recommend that the IAASB include in its Proposed Strategy and Work Plan the plan with respect to updating the ISA for LCEs post initial issuance (for example, whether revisions will be considered as part of each ISA project going forward or whether the IAASB will only update ISA for LCEs periodically).

#### Consideration of the Work of Other Standards Setters

The IAASB has stated that the need for a set of high-quality requirements tailored for the audits of less complex entities is a global concern. Significant efforts have been initiated and, in some cases, completed by national standards setters. For example, the AICPA has developed and issued an authoritative guide that is intended to assist auditors of less complex entities in scaling the ASB’s standard that is converged with ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement. Again, we strongly urge the IAASB to consider the work of national standards setters as such efforts increase the knowledge and expertise that is incorporated in the final ISA for LCE and would reduce the risk that the ISA for LCE would not be accepted globally.

## Australian Auditing and Assurance Standards Board (AUASB)

### Overall Comments

The AUASB continues to have concerns that the proposed LCE audit standard may not meet the objective of providing significant improvements for LCE audits and provides limited utility to auditors, even with revisions that have been proposed to the standard since it was originally exposed by the IAASB. The AUASB’s core concerns, as expressed in our submission to the IAASB on the original Proposed Exposure Draft Auditing for Audits of Financial Statements of Less Complex Entities; remain, those being:

Perception that the proposed standard is a lesser quality or scaled down audit product, especially if the use of the proposed ED-ISA for LCE Standard needs to be explicitly identified in the auditor’s report;

Expectation of reduced work effort being applied than would be expected under the full suite of ISAs, despite the proposed level of assurance being the same; and

Perception that regulators may not accept the use of this proposed standard on audits which are required by local statutory or regulatory requirements.

The AUASB is not responding to all questions being asked in this Exposure Draft, just on Question 1.

## **Canadian Auditing and Assurance Standards Board**

We appreciate the IAASB's ongoing efforts to develop a global solution to address the challenges in performing audits of less complex entities (LCEs), including being responsive to concerns respondents raised on the ED-ISA for LCE.

Small and micro-entities make up a substantial segment of the Canadian economy. We firmly believe that auditors need an effective solution to perform high-quality, cost-effective audits of LCEs. Consequently, we committed in our 2022-2025 Strategic Plan to provide solutions that respond to the environment for small and medium-sized entities and allow auditors to apply standards in a scalable and proportional way on the less complex elements of an entity.

We are closely monitoring the IAASB's progress in developing the proposed ISA for LCE with great interest. Our Audits of Less Complex Entities Advisory Group supports us in our review and responses to IAASB material. The Advisory Group, which includes experts with various backgrounds and experiences – including auditors from small, medium and large accounting firms, and the public sector – provided us with valuable input in formulating this response.

We have not yet decided whether having a separate standard for LCE audits (for example, the ISA for LCE when finalized) is an appropriate solution for the Canadian environment. As noted in our response letter to the ED-ISA for LCE, we will base our decision to adopt the proposed ISA for LCE on whether it will meet the needs of Canadians and serve the Canadian public interest. In making our decision, we will consider the revisions made in finalizing the ISA for LCE, and the implications of having two sets of auditing standards.

## **Compagnie Nationale des Commissaires aux Comptes (CNCC) and Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)**

We are very supportive of the ED. We believe it is clear and simple and it ringfences the use of the ISA for LCEs to the simplest groups, avoiding any risk of scope creep towards more complex groups.

We therefore urge the IAASB, after having considered the comments received on exposure, to adopt the ISA for LCEs, including part 10, without re-exposure.

The process was launched more than 6 years ago at the first Paris conference. The various outreach and events, including the 3 Paris conferences have demonstrated the urgent need for such a standard for most of the economies of the world, where SMEs represent the bulk of the economic activity.

It is now time to adopt and implement the audit standard for LCEs.

## **Malaysian Institute of Accountants - Auditing and Assurance Standards Board (MIA)**

Consistent with our submission in January 2022, the AASB continues to have mixed views on the general approach to this ISA for LCE.

We are grateful as the IAASB has reconsidered its decision and developed proposals (as a separate section) to address audits of less complex groups in this ED which addressed a key concern we had in the previous ED.

While this project continues to be significant to the SMPs, we are of the view that the value proposition of having a separate LCE standard has yet to be properly articulated. During our Board's deliberations, members raised concerns regarding the value proposition for promulgating a separate standard for LCE given the ability to tailor nature, extent and timing of audit procedures in the current ISAs. We propose the IAASB strengthen the articulation of the value of this new standard especially in communication with the wider business community out there.

## **Public Accountants and Auditors Board Zimbabwe**

The PAAB followed a due process. In the process, we conducted research, consulted our key stakeholders and through our technical team, we drafted this comment letter. We support the ongoing revisions of IS' A for LCE Standard because it leads to the provision of more clarity to the users. We believe that the objective of the ISA for LCE is to be a standard that is designed to be proportionate to the typical nature and circumstance of an audit of an LCE and be responsive to those stakeholders who have identified challenges with applying the ISAs in audits of LCEs.

Therefore, we believe it is relevant considering the current trends which state that an estimated more than ninety percent of entities across the world are small and medium-sized entities.

## **5. Accounting Firms**

### **Baker Tilly International**

We understand that the IAASB is not asking for further feedback on content of the proposed ISA for LCE that does not relate to group audits. However, we understand that the proposed ISA for LCE is not yet enjoying widespread support from national lawmakers with some such as the UK's Financial Reporting Council indicating that they will not support its adoption into national rules and regulations. If the ISA for LCE is not widely adopted then it will undermine the IAASB's intention to avoid fragmentation in adoption of its standards and empower others who were so inclined to continue developing or using their own solutions for



audits of less complex entities. If the project can no longer be said to be meeting the IAASB's objectives then resources might be better allocated to other IAASB projects such as assurance on ESG information which is an urgent need.

## **BDO International**

We acknowledge the effort that has gone into the ongoing development, consultations with stakeholders and revisions of the proposed ISA for LCE, especially with regards to audits of group financial statements. We appreciate that several of the comments/recommendations made in our previous comment letter on the exposure draft of ISA for LCE with regards to Group Audits have been considered and incorporated in the Exposure Draft.

Our responses below describe those areas where we agree with the IAASB's approach, and specific matters or terminology that may require some further consideration or guidance in order to provide for a successful adoption and application of the Exposure Draft.

## **Deloitte LLP**

DTTL will continue to support the IAASB's commitment and efforts in the development of a standalone standard for the audit of the financial statements of less complex entities, which is intended to serve both auditors and the marketplace as a separate and simpler alternative to the existing full suite of International Standards on Auditing (ISAs). Accordingly, we are responding to the three specific questions as requested by the exposure draft as follows:

## **Ernst & Young Global Limited**

We support the IAASB's efforts to continue to bring focus to the challenges in applying the International Standards on Auditing (ISAs) to less complex entities (LCEs). We acknowledge the significant ongoing effort that is being made by the IAASB to analyze stakeholder feedback received on the original Proposed ISA for LCE (ED-ISA for LCE) and the effort undertaken to reconsider the decision to exclude group audits from the scope of the proposed standard. We continue to believe that the ED-ISA for LCE should only focus on entities at the lowest level of complexity (and potentially size) and deliver a standard that is obviously different from the full suite of ISAs (i.e., a standard that excludes many audit circumstances, is much more condensed and has sufficient guidance but still includes the requirements necessary to achieve reasonable assurance). We also continue to believe that this approach would address the strongest calls for a separate auditing standard, which are coming from stakeholders of these small audits.

## **Grant Thornton International Limited**

We note that the IAASB has not dealt with situations where performing the audit using the ISA for LCE becomes prohibited and transition to the ISAs is required, or the potential for subsequently transitioning back to the ISA for LCE in future audits. This scenario may be quite common for group audits. For example, the group may acquire a new component, which adds complexity in the period in which the acquisition occurs, such that the audit cannot be performed using the ISA for LCE, but once the acquisition has been integrated into the group, using the ISA for LCE again becomes permissible. Further, the potential for an entity to enter into a transaction that results in a complex estimate that prohibits the use of the ISA for LCE multiplies by the number of entities within the group. If, in these situations, the auditor's report is on comparative financial statements, it is not clear how performing the audit under the ISAs in one year and the ISA for LCE in the other year will be reflected in the auditor's report. Therefore, we are of the view that guidance on both the transition between the ISAs and the ISA for LCE and on reporting in this situation will be essential for auditors when issuing the final ISA for LCE.

## **Mazars**

Mazars wishes to express its appreciation for the inclusion of group audits in the Proposed-ISA-LCE.

As noted in our initial Response Letter Mazars Jan 2022 to the IAASB's Proposed-ISA-LCE; we are supportive of the inclusion of group audits, and in a separate section (i.e. Part 10), of the IAASB's Proposed-ISA-LCE. Our initial response letter explained, inter alia, that there are many groups that are not complex.

## **MNP LLP**

We have reviewed the ED and have provided our comments below. Both ourselves and our clients feel that the ISAs are increasing less suitable for the vast majority of our small and medium sized private entity clients. In our view, the ISA for LCE should be the predominant standard for our client base. Aside from consideration of suitability, we feel this shift is necessary for cost and availability of assurance capacity in the profession today and increasingly so as ESG assurance requirements grow. Accordingly, we support the IAASB's decision to include audits of group financial statements in the scope of ISA for LCE to expand the usage of ISA for LCE. We believe that having a separate part for audit of group financial statements will reduce the amount of unnecessary information that auditors of non-group LCEs will have to filter through when using the standard. While

we agree with the inclusion of audit of group financial statements, it is our view that the Authority of ISA for LCE should not prohibit the use of component auditors. Our explanations are included below.

We would also like to bring to the attention of the IAASB the need for the Authority to permit the use of ISA for LCE when an entity adopts integrated reporting for any future ESG obligations. We believe that integrated reporting would not increase the complexity of an entity.

### Price Bailey LLP

In our opinion LCE's are an important part of the economy and the provision of audit services to them, provide the LCE'Ss and the wider economy with significant value.

LCE's are distinct from large complex listed companies in ways other than size. The nature and risk for these entities is different. They are managed differently, controlled differently and they are therefore not simply smaller PIEs. The same analysis extends to less complex groups.

We are therefore pleased that as a result of the feedback from the Exposure Draft on the ISA for LCE the IAASB decided to amend the Authority to include Group audits and have issued this Exposure Draft on the proposed addition of Part 10 on the requirements specific to Groups.

Many group entities are not complex and neither are their audits. Whilst the proposed amendment to the authority now includes some groups, we believe it is still too restrictive and will exclude a number of Groups which are genuinely less complex. We have suggested some amendments in our responses to the specific questions asked in the consultation. It is important that the authority is not too narrow, as unless this standard can be applied to enough entities commercially it will not be viable for firms to adopt.

We understand that the IAASB are amending other parts of this standard, on which it is not consulting. We hope that these amendments will address a number of concerns raised, in particular with regard to part 6, where currently a number of requirements are retained from other ISA's which are not relevant to Less Complex Entities (LCE's).

We are pleased the IAASB have continued with this work. It is an important area and we support the IAASB moving forward with the LCE standard. We believe it will be necessary to continue to evolve the standard once it has had an opportunity to be adopted. We hope you find our feedback useful, as we are keen to see an auditing standard suitable for LCE's.

### RSM International

We support the addition of the Groups section to ED ISA-LCE, and we are grateful that the IAASB has listened to the views expressed by many respondents in the ED ISA-LCE on this matter. We have some comments as set out in our attached responses to the specific questions posed in the Exposure Draft to assist your finalisation of this proposed Standard.

### SRA (NL)

We refer to our December 2021 comment letter regarding the ED on ISA for LCE. In this letter we expressed a strong preference for integration of LCE requirements in the existing ISA's, thus creating one integrated set of ISA's. We regret that IAASB has decided to develop a stand-alone standard for LCE's.

We also expressed our view in the comment letter, that we do not support the exclusion of group audits from the scope of the proposed ISA. We therefore welcome that the IAASB has changed their view regarding the latter subject.

## 7. Member Bodies and Other Professional Organizations

### Accountancy Europe

The proposed ISA for LCE is an important step to increase efficiency in LCE audits while reaching a high-quality audit. We fully support the initiative and the IAASB moving forward with it as soon as possible.

The main key success factor will be the communication efforts to get the buy-in from all stakeholders. The journey will require all stakeholders, including national standard-setters, audit regulators, and professional accounting organisations, to work together to ensure that the value of the work performed by the IAASB on this standard is not lost, not in the least because of the unjustifiable restrictions on the scope of application of the standard. The standard may change as stakeholders and auditors gain experience with its practice. Part 10 of the standard is one of the areas for which an early review and revision may be considered.

In this regard, the IAASB should monitor the extent of ISA for LCE adoption and consider what needs to be done if the adoption is not widespread. This should include globally engaging with audit software providers to see whether and how they accommodate the standard in their products.

## Association of Practicing Accountants (APA)

### General observations

Less complex entities (LCEs) form a significant proportion of the UK economy as well as being drivers of jobs and growth. It is important that these entities are able to demonstrate a true and fair view, not just at the micro level where this will be important in terms of securing finance but at the macro level where they are an important component of the real economy.

LCE's are distinct from larger, more complex listed entities in terms of size and the systemic risk they pose. They are also managed and controlled differently and should not be thought of as smaller PIEs. The same analysis extends to less complex groups.

We are therefore pleased to see that the IAASB has decided to amend the Authority to include Group audits and have issued this Exposure Draft on the proposed addition of Part 10 on the requirements specific to Groups.

Many group entities are not complex and neither are their audits. However, while the proposed amendment to the authority now includes some groups, we believe it is still too restrictive and will exclude a number of groups which are genuinely less complex. We have suggested how this issue may be addressed more effectively in our detailed comments below.

We understand that the IAASB are amending other parts of this standard, on which it is not consulting. We hope that these amendments will address a number of concerns raised, in particular with regard to part 6, where a number of requirements are retained from other ISA's which are not relevant to Less Complex Entities (LCE's).

We are pleased the IAASB have continued with this work. It is an important area and we support the organisation in moving forward with the LCE Standard.

## CPA Australia

We agree with the International Auditing and Assurance Standards Board (IAASB) decision to reconsider the inclusion of group audits in the scope of the ISA for LCE as a separate section (Part 10). We are of the view that including less complex group audits that meet the appropriate criteria will increase the adoption and use of the ISA for LCE globally.

## European Federation of Accountants and Auditors (EFAA) (2)

### GENERAL COMMENTS

EFAA is concerned to ensure that policy, regulation and professional standards are scalable and proportionate to the capacities of SMPs and their SMEs clients and tailored to the needs and characteristics of SMPs and SMEs. Consequently, this project is extremely important to SMPs, and we strongly encourage the Board to prioritize the finalization of the standard in December 2023.

In our response to the ISA for LCE ED, in our interventions on the IAASB Consultative Advisory Group (CAG), and during the recent Global Webinar: Audits of Less Complex Entities Update with IFAC and the IAASB, we have urged the Board to scope in the audits of less complex groups. We, therefore, welcome the IAASB's decision to address group audits through the inclusion of a separate Part 10.

## EXPERTsuisse

As a member of IFAC we welcome that the IAASB has developed an exposure draft for a separate standard for audits of less complex entities and consider this subject as an urgent matter as small- and medium-sized enterprises (SMEs) make a critical economic and social contribution.

## Institute of Chartered Accountants in England and Wales (ICAEW)

### GENERAL POINTS

We welcome the opportunity to comment on the draft part 10 of IAASB's ISA for LCE. Respondents to IAASB's 2021 ED were clear that for the standard to have value, and for it to be sufficiently widely scoped to make the investment in its adoption and implementation worthwhile for practitioners, it would, as a minimum, need to scope in group audits.

Many, perhaps most groups of entities are not complex, and nor are their audits. To suggest otherwise is disingenuous and we are therefore pleased that IAASB has proposed these revisions. While the proposals will catch many group audits, we believe

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the proposed scope is still unnecessarily narrow, and excludes many other less complex groups. Catching some, but not others within a group perceived as essentially the same, will disincentivise adoption of the standard by both standard-setters and practitioners.

We would have liked to have seen these revisions in context because these proposals, combined with the other potentially substantial revisions arising from the exposure process, have the potential to make the final standard different to the one originally proposed. We understand that this would have delayed the finalisation of the standard and the need to expedite finalisation on a timely basis. But we also note an evident lack of appetite for re-exposure of any standard in recent years, regardless of the extent of changes made to EDs, and we urge IAASB to exercise caution when taking this approach, to avoid any loss of credibility in its standards and the standard-setting process.

We support the IAASB's outreach to audit regulators on the ISA for LCE. Some regulators see no need for it, believing that the ISAs as they stand are proportionate and scalable. We urge IAASB to continue to engage with audit regulators on this issue, and to emphasise the importance of this standard to the maintenance of a healthy non-PIE audit market, especially in developed economies where audit exemption levels have risen exponentially in recent years.

We are all in uncharted waters with this standard and its finalisation marks the start of an adoption and implementation journey. The journey will require all stakeholders – standard-setters, audit regulators, PAOs and NSS – to work together to ensure that the value of the work performed by IAASB on this standard is not lost. Furthermore, we fully expect the standard to change over time as stakeholders gain experience in adoption and implementation. This section of the standard is one area in which a review of scope with a view to extending it to a wider range of group audits might be considered at an early stage, not least to avoid a perverse disincentive to audit quality that might arise if group auditors decide to do the work on components themselves, possibly remotely, rather than using a capable local auditor.

IAASB does not normally expose the Basis for Conclusions or other documentation accompanying new standards. However, this standard is different to all others and IAASB should therefore consider providing a clear indication of the size criteria it is intending to suggest for NSS and regulatory bodies, and the wording it is intending to use to encourage adoption.

IAASB should also consider, prior to finalisation, what good looks like in terms of the extent of adoption over time and commit to monitoring this and considering what more needs to be done if adoption is not widespread. It should include a separate question regarding adoption of this standard when considering compliance with its Statement of Member Obligations (SMOs).

In practice, where adoption is permitted by audit regulators, the extent of adoption will depend on the extent to which auditors are permitted to use experience of auditing under this standard in their training to qualify as auditors. It will also depend on whether software platforms accommodate the standard. We urge IAASB to consider further engagement with software providers globally as they will only make the investment if they are convinced that there will be demand for it, and demand will only be apparent if the software providers make the investment. We also urge IAASB in its engagement with audit regulators to emphasise the need to acknowledge differentiation between the ISAs and this standard, not in terms of rigour or the quality of documentation, but in the nature and extent of work to be performed. If they do not do so, and practitioners thereby learn that there is no difference between the application of this standard and the ISAs, they will not use the standard.

### **Institute of Chartered Accountants of Scotland (ICAS)**

We welcome the IAASB's proposal to present all requirements relating to group audits in a separate Part of the proposed ISA for LCE as we believe this provides greater clarity.

### **International Federation of Accountants' Small and Medium Practices Advisory Groups (SMPAG)**

This project is extremely important to SMPs, and we encourage the Board to continue to prioritize the finalization of the standard in accordance with the proposed timetable of September 2023.

### **Nordic Federation of Public Accountants (NRF)**

We strongly believe that the LCE standard could be an important tool in maintaining a relevant and value adding audit market for LCEs. To achieve this the standard needs to be fit for purpose, an attractive alternative for the users and accepted by the regulators.

NRF is pleased to notice that the IAASB has reconsidered its initial proposal to prohibit all group audits from the scope of using the LCE standard. In our view the overall success of the LCE standard, especially among SMPs, will depend on the possibility to use the standard also when auditing less complex groups.

Regardless of the final design of the scope, we strongly encourage the IAASB to closely monitor the adoption of the standard, provide implementation material and continue its outreach activities, especially with the regulators. In particular, we recommend an early post-implementation review where focus should be on understanding how the scope regarding group audits has affected the overall use of the standard.

### **Pan-African Federation of Accountants (PAFA)**

#### **PREFACE**



The Pan-African Federation of Accountants (“PAFA”, “we” and “our”), welcomes the International Audit and Assurance Standards Board (IAASB)’s publication of the 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 LCEs) and Proposed Conforming Amendments and especially appreciates the Board’s reconsideration of the exclusion of Group Audits from the scope ISA for LCEs which PAFA, in its response to the first consultation on the proposed Standard, was not in support.

## South African Institute of Chartered Accountants (SAICA)

### OVERALL COMMENTS

SAICA welcomes the efforts of the International Auditing and Assurance Standards Board (IAASB) in issuing the Proposed ISA for LCE, as the new requirements are designed to strengthen the auditor’s approach in auditing less complex groups.

We acknowledge that the IAASB aims to achieve the following objectives with regards to the proposed amendments:

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

Please refer below for our detailed feedback on the specific questions posed by the IAASB:

## Wirtschaftsprüferkammer (WPK)

### General Comments

Overall, we welcome the 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 already welcomed the IAASB’s introduction of the ED ISA for LCE in 2019 and acknowledge that the IAASB has now taken the logical second step, namely, to also allow simply structured groups to apply the ISA for LCE under certain conditions.

## 9. Individuals and Others

### John Kelly

#### Preliminary observations

LCE standards will probably apply to only firms that are neither national (or international) firms nor regional firms. Hence the users of these standards will be “local” firms.

I would observe that many firms, other than regional or international firms, are now unaware that audits that (to put it simply) involve a consolidation are group audits and subject to 600. Hence, they will be unaware of the LCE version. Further, in my experience, these firms sometimes plan their audits without reference to the risk model (which would allow them to do less or a proper amount of work) and layer on standard (and unnecessary) audit procedures and then complain that standards require them to do excess work. It’s not the standards.

That said, I cannot imagine how a group audit could by any stretch of the imagination be “less complicated.” Even if all that is done is to use another firm for “physical presence.” And even then, as an auditor I would want to apply all the requirements of 600, particularly the communication requirements to be sure the “physical presence auditor” did their job – legal liability flows to the consolidation audit partner.

The 59 paragraphs in the current standards reduce to 27 actions required by the auditor, of these 14 are probably otherwise required by standards and accordingly, even if not documented specifically in relation to the group audit, would probably be otherwise documented in the consolidation file. Of the remaining 13, most are requirements to document, not to take an audit action. This makes complying with 600 mostly a matter of documentation. And simple.

Of greatest importance in 600 are the requirements to communicate with the component auditor – even if that component auditor is part of a larger “local” firm.

Standards setters are annoyingly setting standards that require more documentation, not audit actions. Presumably because of the assumption that one can determine if an audit is well done by inspecting the documentation. This is of course not true. A prettily documented file that appears to be well done may indeed not be well done.

Two sets of standards, one for normal audits and one for less complicated audits will be more complex and time consuming to implement for a firm than one set – properly understood. The risk to the auditor is that the requirements will be interpreted to allow the LCE standards to be used when they should not. And one year perhaps they can be used, and the next not and how is that transition managed if not enough work was done in the prior year for this year’s audit. My advice to any auditor would be to never use the LCE standards, mostly for the additional time taken to understand if they can be applied and somewhat for the risk that they might be applied when they should not. Current standards, properly understood, now allow a simple audit to be done simply – if properly planned.

It is not hard to comply with the requirements in 600. And if an auditor wished to do their job properly, my view is that all the requirements are mandatory. In my view, LCE standards are generally unnecessary, and particularly for Section 600.

## **1. Do you agree with proposed prohibition on the use ISA for LCE for group audits\la. Agree with a Prohibition for Component Auditors\i. Support the Prohibition as per ED\Agree**

### **3. Regulators and Audit Oversight Authorities**

#### **Financial Reporting Council – UK (FRC)**

The proposed amendments to include less complex group audits within the scope of the ISA for LCE does not change our view that there is insufficient grounds for adoption in the UK. That said, we support the view of the IAASB that on balance the use of component auditors should be excluded from the scope of the ISA for LCE, recognising the overall pervasive theme that the scope of the proposed standard should better reflect the typical LCE for which the ISA for LCE is intended to be designed for.

### **4. National Auditing Standard Setters**

#### **American Institute of Certified Public Accountants (AICPA)**

Response 1: We 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 – provided that our understanding of the IAASB's intent is correct.

It is our understanding that the IAASB's intent is to expand the applicability of the ED-ISA for LCE for engagements in which the auditor is engaged to audit the financial statements of a less-complex entity that includes components. The auditor is only permitted to use a component auditor to perform work when a physical presence is required for a specific audit procedure such as an inventory count or the verification of a physical asset performed at a component.

#### **Compagnie Nationale des Commissaires aux Comptes (CNCC) and Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)**

Yes, we are globally in agreement with the authority of the proposed ISA for LCE for group audits.

Before reaching our conclusion, we had discussions about what was meant by the involvement of components auditors; did it mean that the group auditor could not use the staff from another office of its own firm to audit a component of the group? Or did it mean that he could not use the work of another auditor from another firm? Or did it mean that the entire audit of the group had to be performed directly by the central team? Etc.

We also discussed about another possible approach which could have consisted in prohibiting the use of ISA for LCEs in groups where the group auditor requires a full scope audit from the auditors of certain components: i.e., an approach based on the work required rather than an approach based on the prohibition of the involvement of a component auditor.

However, at the end of the day we concluded that the proposed authority of the ED was right, that it was clear cut and simple and that it clearly limits the use of the ISA for LCEs to the simplest groups.

#### **Japanese Institute of Certified Public Accountants (JICPA)**

We agree.

#### **Public Accountants and Auditors Board Zimbabwe**

PAAB agrees with the proposed prohibition i.e. ISA for LCEs should not be used in group audits mainly because Group Entities do not meet the definition of a less complex entity. Especially when there's the utilization of component auditors on the audit of group entities components.

Yes because for group audits there's significant judgement applied in determining the audit scope and evaluating the sufficiency and appropriateness of the work to be performed in terms of the current IAS 600. The level of direction and supervision required for component audits is resultantly significant.

### **5. Accounting Firms**

#### **Deloitte LLP**

For the reasons outlined in the explanatory memo of the exposure draft, we agree with the proposed prohibition on the use of the proposed ISA for LCE for group audits where component auditors are involved (other than the limited circumstances provided for in the exposure draft).

## KPMG IFRG Limited

### 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 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.

## PriceWaterhouseCoopers

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.

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.

## 7. Member Bodies and Other Professional Organizations

### CPA Ireland

CPA Ireland agrees with the proposed prohibition on the use of the proposed ISA for LCE group audits where component auditors are involved.

It is considered that in general, component auditors are typically used in more complex group audit situations where the use of the proposed ISA for LCEs would not be considered appropriate.

However, it is recognised that in certain circumstances that a component auditor will not be used because of the complexity of the group but perhaps for more practical reasons such as the location of a stock take etc. Therefore, it is considered reasonable that Part 10 takes account of limited circumstances where physical presence is required.

### Federation of Accounting Professions of Thailand (TFAC)

Yes, we agree. However, more examples for "where physical presence is required" might be useful.

### Institute of Chartered Accountants of Nigeria

We agree with the proposed prohibition on the use of the proposed ISA for LCE for group audits. Group audits or audits of financial statement of a group would generally involve certain level of complexity in the operations of the group of entities to be audited. This would create further need for diligence for the auditor to plan the audit procedures to ensure that appropriate opinion is arrived at. Therefore, it would not be ideal that the proposed ISA for LCE for group audits is applied especially when component auditors are involved save for limited circumstances where physical presence is required.

### Instituto de Auditoria Independente do Brasil - Ibracon

We support the proposal to broaden the scope of the standard to include less complex groups. As part of this expansion, we agree with the IAASB's restriction on using the standard for group audits when a component auditor is involved in the work, except in limited circumstances defined by the IAASB. Furthermore, we endorse the proposed material to be included in the standard.

### Malaysian Institute of Certified Public Accountants (MICPA)

We suggested to the IAASB previously that the proposed ISA for LCE be issued in the form of guidance, instead of a separate standalone standard.

Nevertheless, we 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.

**1. Do you agree with proposed prohibition on the use ISA for LCE for group audits\la. Agree with a Prohibition for Component Auditors\i. Support the Prohibition as per ED\Agree with Caution**

## 3. Regulators and Audit Oversight Authorities

### Independent Regulatory Board for Auditors – South Africa (IRBA)

Overall, we support the proposed prohibition on the use of the proposed ISA for LCE – Group Audits for group audits where component auditors are involved.

However, we do disagree conceptually with an applicability provision that is based on the actions and structure of the audit firm or auditor, and not on the auditee. We encourage the IAASB to reconsider this in the interest of long term sustainability of the proposed standard, and to close the arbitrage opportunities that the current proposal creates between clients and their choice of audit firms. This approach of focus on the audit firm instead of the client, creates the odd and unhealthy situation that the actions of an audit firm could influence whether a client entity is an LCE or not, that the change in auditor could influence the classification of the audited entity, and that a change in structure of an audit firm could influence the applicability of the LCE standard to the audit firm's clients.

We therefore encourage the IAASB to only use criteria and characteristics of the audited entity in determining whether an entity is an LCE or not, and not to permit consideration of the circumstances of the audit firm.

#### 4. National Auditing Standard Setters

##### Botswana Accountancy Oversight Authority (BAOA)

We agree with the proposed prohibition on the use of the proposed ISA for Less Complex Entities (LCE) for group audits where component auditors are involved, other than in limited circumstances where physical presence is required because the prohibition is in line with the nature and circumstances of a typical LCE that the standard is intended for.

However, the Board must note that there may be instances where the Group is not complex, but the component auditor is engaged for various reasons, for example where there is a prohibition for a non-resident auditor to provide audit services in a different jurisdiction. This, therefore, means that the Group is not complex, but the prohibition is because of the law, so such instances should be considered.

#### 5. Accounting Firms

##### RSM International

Yes, we agree the proposed prohibition on the use of ISA for LCE where component auditors are involved.

However, we caution that this prohibition may result in decisions regarding the use of component auditors being driven by a desire to use the ISA-LCE rather than using the most effective way of gathering sufficient appropriate audit evidence. In circumstances where, for example, there were one or two overseas components, in order to use the ISA-LCE the group auditor may be minded to perform audits of those components themselves, rather than engaging component auditors. Similarly, the group auditor may decide not to perform audit procedures on certain transactions and balances of a component in order to avoid utilising a component auditor. Both scenarios could be to the detriment of audit quality. We suggest adding a clarification that the audit approach and, in particular whether to use component auditors, should not be driven by the group auditor's desire to use ISA-LCE.

We also note the considerations in section 2 paragraph 12 the proposed prohibition arguably contradicts the principle that use of the standard should be based on the complexity of the entity rather than the audit, but we agree that, on balance, keeping the applicability of the standard simple for users to apply, is appropriate.

#### **1. Do you agree with proposed prohibition on the use ISA for LCE for group audits\** **a. Agree with a Prohibition for Component Auditors\** **ii. Support But Should Expand Exemptions (Allow More Situations)**

#### 4. National Auditing Standard Setters

##### Hong Kong Institute of Certified Public Accountants (HKICPA)

As suggested in our response to the Exposure Draft, Proposed International Standard on Auditing of Financial Statements of Less Complex Entities ("ED-ISA for LCE" or "LCE standard"), we welcome the IAASB's decision to include audits of group financial statements in the application of the LCE standard.

However, our stakeholders consider the prohibition to use component auditors in a group audit engagement under the LCE standard (other than in limited circumstances) is too restrictive. In Hong Kong, it is common for groups that are not complex to have subsidiaries situated in Mainland China or overseas with the involvement of component auditors. Meanwhile, various laws and regulations in Mainland China impose cross border restrictions which may prevent auditors in Hong Kong to gain remote access to accounting records of companies established in Mainland China. Due to the restricted access imposed by laws or regulations in Mainland China, it may be necessary for the group auditor to use component auditors in group audit engagements regardless of the complexity of the group. Accordingly, we recommend the IAASB to expand the scope of the limited circumstances referred to in paragraph A.3., i.e., in addition to an inventory count and asset count, to allow the use of component auditors in situations of restricted access to the component due to laws and regulations.



To facilitate the use of the standard in group audit engagements, we also recommend the IAASB to incorporate guidance on how to overcome the restriction to access the component in the absence of component auditors.

We acknowledge the IAASB's view that extensive use of component auditors would not be the intended design of ISA for LCE. Involving component auditors would lead to substantial additional procedures by the group auditor, such as assessing their competence and capabilities; instructing them; communicating with them and reviewing their work, which would increase the volume of the proposed standalone standard and make the proposed Part 10 no different from or as complicated as ISA 600 (Revised).

However, some of our stakeholders consider it too restrictive to prohibit the use of component auditors (other than under limited circumstances) in a group audit engagement under ISA for LCE. They consider the presence of a component auditor is not always a driver for complexity. In Hong Kong, it is common for groups that are not complex to have subsidiaries situated in Mainland China or overseas. Using component auditors situated in the same jurisdiction as the overseas subsidiary could enhance the efficiency and effectiveness of the group audit, such as eliminating the travelling needs; leveraging the component auditors' knowledge on the overseas environment and legal requirements, etc. Accordingly, some of our stakeholders consider the prohibition too restrictive and would reduce the applicability of the standard in group audit situations, hence practitioners would still have to use the full ISAs for some of their engagements which are otherwise less complex.

During the COVID-19 crisis, there were numerous circumstances that non-Hong Kong auditors (e.g., auditors from Mainland China) were involved in Hong Kong audits due to travel restrictions and Hong Kong auditors were not able to carry out physical inspection themselves or to verify the books and records of the clients kept overseas (e.g., as required under local legislation). Such assistance from other auditors was needed not because it was a "group audit"; it was also needed for an audit of a single company with operations in Mainland China. The arrangement could be regarded as the use of "borrowed staff" (within or outside the network) by the Hong Kong auditor to carry out certain audit procedures and not necessarily the engagement of a "component auditor". In the context of ED-ISA for LCE, we urge the IAASB to clarify whether the above situation would constitute the use of a component auditor, or merely the use of a "borrowed staff" without involving a component auditor.

It is also worth mentioning that due to relevant laws and regulations of Mainland China, accounting records of companies incorporated in Mainland China could not be taken out from Mainland China. However, the ED may not have been clear to describe circumstances that access to components may be restricted due to legal restrictions, and how to respond to such restrictions. Meanwhile, we note that paragraphs A179 to A180 of ISA 600 (Revised), Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) describe situations of restricted access to component auditor documentation and provide guidance to the group auditor to overcome such restrictions.

To strike a balance between the IAASB's consideration and our stakeholders' comments on the use of component auditors, and in view of the access restrictions to accounting records of companies in Mainland China, we recommend the IAASB to consider the drafting of the LCE standard as follows:

Expand the scope of the limited circumstances referred to in the proposed paragraph A.3., i.e., in addition to inventory count and asset count, allow the use of component auditors in case of restricted access to the component due to laws and regulations; and

Develop guidance with reference to paragraphs A179 and A180 of ISA 600 (Revised), with appropriate modification, to assist auditors using the LCE standard to overcome access restriction due to laws and regulations, for example, in the case of companies incorporated in Mainland China as we describe above.

In addition, our stakeholders observe that other circumstances that might require an auditor's physical presence for a specific audit procedure might include:

Obtaining a confirmation from the bank or relevant organization directly; and

Site visit of major customers and/or suppliers.

We appreciate that the LCE standard applies a principle-based approach, hence, it is not possible for the IAASB to develop an exhaustive list on all scenarios to a particular circumstance or requirement. We would leave it to the IAASB to decide whether further illustrative examples such as the above should be incorporated into paragraph A.1. on circumstances requiring auditors' physical presence for a specific audit procedure.

To reduce the complexity and uncertainty of involving component auditors in those limited circumstances, we recommend the LCE standard to require the group auditor be specific on the nature and extent of audit procedures assigned to the

component auditors, e.g., types of audit procedures, number of samples, etc.

## 5. Accounting Firms

### BDO International

We agree with the proposed prohibition including the limited circumstances noted, except for one consideration, that the exemption for performance of specific audit procedures not to be restricted to when physical presence is needed for those procedures. For example, if a component is not geographically close to the group auditor and the plan is to only perform specific audit procedures at the component, the group auditor should still be able to request a component auditor to perform those specific audit procedures for practicality reasons. The work performed by the component auditor will still be supervised and reviewed by the group auditor. We are not requesting that component auditors be used to design and perform further audit procedures on the entire financial information of the component, nor proposing that the component auditor design and perform further audit procedures on one or more classes of transactions, account balances or disclosures; we request that the exemption be extended only when component auditors are needed to perform specific further audit procedures for practicality reasons.

The situation in the preceding paragraph is most relevant when the component auditor is from the network firm or another network firm. When the specified procedure is to be performed by another auditor in the group auditor's firm (perhaps someone in a different office), we think that such an auditor could be a member of the group engagement team and would not be considered a component auditor. The guidance should recognize that firms now operate virtually so that geographical divisions between offices in a firm are less important. It is now common for engagement team members to be located in different offices. Therefore, using an auditor from a different office to perform specified procedures on a component does not make them a component auditor as long as they are operating as an engagement team member.

Similarly, if the group auditor contracts with an auditor from another firm or service provider to perform specified procedures on a component, and the contracted auditor will be directed and supervised by the group auditor, we believe that contracted auditor could still be an engagement team member and not be considered a component auditor.

In conclusion, if further guidance could be provided on when the auditor performing specified procedures on a component is a component auditor versus an engagement team member, that may address some of the concerns surrounding the exemption to the prohibition.

In addition, we strongly agree with retaining the prohibition when any of the group's individual entities is a listed entity or a PIE.

### Mazars

Overall, and as explained in paragraph 12 of Explanatory Memorandum, we support the assertion that the use of component auditors may sometimes be due to a practical consideration rather than due to the complexity of the group itself. It follows that the use of a component auditor is rather an attribute of the perceived complexity of a group audit, but not a feature of a "complex entity." Accordingly, as discussed in more detail below, we are concerned that the prohibition (as drafted) may unnecessarily exclude simple or less complex groups, purely because the group auditor may determine that the use of a component auditor is more practical in certain circumstances.

Related to the determination of a "less complex group," our response includes a recommendation to clarify the applicability of the auditor's exercise of professional judgment in the context of the provisions included in the Authority.

We appreciate the intention of the proposed prohibition on the use of the Proposed-ISA-LCE for group audits where component auditors are involved, other than in circumstances where physical presence is required. We also appreciate the challenge that the IAASB faces in striking a balance between allowing the use of the Proposed-ISA-LCE for group audits, but at the same time restricting its use in undue circumstances.

However, we don't believe the use of component auditors is a feature of a "complex entity," but rather an attribute of the perceived complexity or work effort when performing a group audit. For example, assuming a component is based in another jurisdiction, the use of one or more component auditor may be favourably considered due to the group auditor's organisational requirements and to safeguard an effective and high-quality audit.

In contrast, when considering the other proposed qualitative characteristics of the proposed authority for Group Audits (presented in A.3. of the ED–LCE–Groups), such characteristics are (rightly) based on the complexity of the entity or group, rather than the complexity of the audit.

It is therefore our view that the proposals may unnecessarily exclude some very simple or less complex groups, purely because the group auditor may determine that the use of a component auditor is more practical in certain circumstances or may achieve a higher degree of audit quality in the public interest. The IAASB should also be mindful of the potential for unintended consequences regarding competition and choice in the audit market, whereby only certain firms/networks are able to deliver a group audit depending upon the restrictions put in place. As noted, such exclusions may be unintended, and we therefore ask that the IAASB consider extending the scope of the Proposed–ISA–LCE for group audits to include the use of component auditors to carry out specific audit procedures not amounting to a full-scope audit.

## Price Bailey LLP

We believe the proposed restriction is currently too narrow and will still exclude a number of less complex groups. The examples provided are too restrictive and should be broadened to include at least the following:

- (a) Inspect documents
- (b) Carry out specific audit procedures not amounting to a full-scope audit.

We understand that if there was no restriction on the use of component auditors then there would be a perception that a number of additional requirements from ISA600 would need to be included within the ISA for LCE. We do not believe the addition of the 2 examples noted above would require any amendments to the requirements currently included within the current proposed part 10.

## 7. Member Bodies and Other Professional Organizations

### Association of Practicing Accountants (APA)

We believe the proposed restriction is currently too narrow and will still exclude a number of less complex groups. The examples provided are too restrictive and should be broadened to include at least the following:

Inspect documents

- (b) Carry out specific audit procedures not amounting to a full-scope audit.

We understand that if there were no restriction on the use of component auditors then there could be a perception that a number of additional requirements from ISA600 would need to be included within the ISA for LCE. We do not believe the addition of the 2 examples noted above would require any amendments to the requirements currently included within the current proposed part 10.

### Institute of Chartered Accountants in England and Wales (ICAEW)

The proposed prohibition on the use of the standard except where a physical presence is required, and the qualitative characteristics of non-complex groups as set out in the proposals would, when combined, unnecessarily exclude some very simple groups, because of the restrictive nature of the examples. We suggest that the scope can be widened without compromising audit quality as set out in our answers to questions 1 and 2 below.

The proposed prohibition would unnecessarily exclude some very simple groups. If standard-setters and practitioners are to adopt this standard, and software and methodology providers are to invest the necessary resource in updating systems, it is important to avoid a situation in which some less complex groups can be audited under this standard, whereas others that are essentially the same must be audited under the ISAs. We suggest that the scope of the standard is extended as follows: A.1 d (ii) permits the use of the standard when the component auditor's involvement is limited to 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).

We understand the care taken over this wording however, we do not agree that attending physical inventory counts and inspecting assets are the only circumstances in which the use of the standard would be justified. As a minimum, the need to (a)

inspect documents where there is no alternative and (b) carry out specific audit procedures not amounting to a full-scope audit, should be added to this list. The non-exclusive nature of the examples given should be emphasised.

We understand fears about misuse of the standard if the qualifying examples were removed altogether, if it were left entirely to auditors to determine when a physical presence is needed. However, as noted above, IAASB should consider including in the EEM examples of activities that would take the involvement of component auditors out of scope, such as a full audit of a component [or an audit of a significant proportion thereof?] We do not believe that this would result in the misuse of the standard. [Any other examples]

## **Institute of Chartered Accountants of Scotland (ICAS)**

In our response to the IAASB's 2021 exposure draft on its proposed ISA for LCE we highlighted that the IAASB should not specifically exclude all groups. Rather, as a general concept, the same criteria should be applied in the group situation as to standalone entities to determine whether use of the proposed ISA for LCE is appropriate. We therefore welcome that the IAASB is proposing to widen the scope of the proposed ISA for LCE to include at least some group audits. However, we believe that the IAASB's proposed approach is rather unnecessarily limited in scope and would welcome this being further expanded.

We acknowledge that the IAASB has a difficult task in appropriately defining the scope of groups to be included within the scope of the proposed ISA for LCEs. However, we believe that the proposal is unnecessarily restrictive and have concerns that it will prohibit the use of the proposed ISA for LCE on the audit of groups, the structure of which is not complex. We would suggest that as a minimum, consideration be given to widening the scope to permit the use of component auditors in undertaking specific audit procedures on behalf of the group auditor but making clear that they are prohibited from undertaking a full scope audit on any of the group components.

## **Institute of Singapore Chartered Accountants (ISCA)**

We are supportive of the inclusion of group audits in ISA for LCE. With regards to the proposed scope, we have the following comments:

It may be too restrictive to limit the scope of component auditors to "circumstances where physical presence is required". There may be circumstances where the group auditor will require assistance from the component auditor to perform specific audit procedures as required by the group auditor. For example, the component auditors may be involved for practical reasons rather than because they are contributing skills, experience or expertise in technical or other matters. The IAASB may consider expanding the scope to include such situations. This will allow broader application of ISA for LCE to group audits but at the same time restrict the use of the standard to situations where component auditor involvement is limited.

## **South African Institute of Chartered Accountants (SAICA)**

Yes, in principle we agree with using exclusion of component auditors as a base to conclude that the audit of the group falls within the audit of a LCE scope. Some specific considerations the task group deliberated on include the following:

Another auditor:

The examples provided in the exclusions "(e.g., attending a physical inventory count or inspecting physical assets)" indicate that the use of another auditor in these circumstances as part of a LCE audit would be allowed.

These are also highlighted as areas where the principles of group audits, International Standard on Auditing 600(Revised), Special Considerations-Audits of Group Financial Statements (Including the work of Component Auditors), may be used per ISA 600 (Revised).

ISA 600 (Revised) par .3 indicates the following: "As explained in ISA 220 (Revised), this ISA, adapted as necessary in the circumstances, may also be useful in an audit of financial statements other than a group audit when the engagement team includes individuals from another firm. For example, this ISA may be useful when involving such an individual to attend a physical inventory count, inspect property, plant and equipment, or perform audit procedures at a shared service center at a remote location."

We would like to recommend that requirements be provided in the standard around the inclusion or exclusion of a shared service centre within the scope of the LCE group audit.

A consideration could be that in the instance that the shared service centre is audited by the auditor of the LCE group, it is within the scope of the LCE standard.

In the instance that another auditor is required, it may indicate that it extends to the definition of a component auditor, in which case it may mean that the shared service centre causes this audit of the group to fall outside the scope of the LCE standard.

If a shared service centre within a group is considered to be included in the scope of LCE group audit and there is considered to be scenarios where using another auditor is appropriate, it is suggested that the same wording in ISA 600 (Revised) paragraph 3 should be used in the LCE standard.

## **1. Do you agree with proposed prohibition on the use ISA for LCE for group audits\la. Agree with a Prohibition for Component Auditors\liii. Support But Should Narrow Exemptions (Allow Less Situations)**

### **3. Regulators and Audit Oversight Authorities**

#### **Committee of European Auditing Oversight Bodies (CEAOB)**

We agree with the general prohibition on the use of component auditors. However, we are concerned that the wording in the ED regarding when component auditors may be used is open to interpretation. The term “circumstances in which a physical presence is needed for a specific audit procedure” could be used to justify the use of component auditors to perform audit procedures where documents or group personnel are not centrally located. This does not appear to be the IAASB’s intention and such an interpretation risks misapplication of the ISA for LCE to complex groups.

To improve clarity, we suggest that the ISA for LCE should further limit any use of a component auditor to only situations where their physical presence is required to verify the existence of an asset, including an inventory count.

The standard should further clarify whether more than one component auditor may be used on an LCE group audit and whether more than one specific audit procedure may be performed by component auditors.

The explanatory material relating to component auditors is limited to defining a component auditor. Further guidance is required to clarify what is intended by specific audit procedures where a physical presence is required to ensure that the standard is not misapplied by auditors.

#### **Irish Auditing and Accounting Supervisory Authority (IAASA)**

We agree with the general prohibition on the use of component auditors. However, the wording in the ED regarding when component auditors may be used is open to interpretation. The term “circumstances in which a physical presence is needed for a specific audit procedure” could be used to justify the use of component auditors to perform audit procedures where documents or group personnel are not centrally located. This does not appear to be the IAASB’s intention and such an interpretation risks misapplication of the ISA for LCE to complex groups.

The explanatory material is limited to defining a component auditor. Further guidance is required to clarify what is intended by specific audit procedures where a physical presence is required to ensure that the standard is not misapplied by auditors.

To improve clarity, we suggest that the ISA for LCE should limit any use of component auditors to situations where their physical presence is required to verify the existence of an asset, including an inventory count.

The standard should also clarify whether more than one component auditor may be used on an LCE group audit and whether more than one specific audit procedure may be performed by component auditors.

### **4. National Auditing Standard Setters**

#### **Malaysian Institute of Accountants - Auditing and Assurance Standards Board (MIA)**

There remain some challenges in permitting the use of the proposed standard on group audits. While we acknowledge that there can be simple group audits, we also believe that in order to avoid unacceptable risks to audit quality (including that the LCE standard is inconsistently applied), clear criteria need to be prescribed for when the standard may be applied to such groups.

We are of the view that the use of the ISA for LCE may be permitted for a group audit when the

- group entity and all components are audited by a single firm;
- consolidation does not require adjustments to reconcile financial information of components recorded under a local financial reporting framework to that of the group financial reporting framework; and



- group audit does not involve using the work of component auditors other than in certain limited circumstances as the Board has proposed in the ED.

## 5. Accounting Firms

### PKF International

Response:

We 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.

However, we have some concerns regarding the focus and wording of prohibition (ii) and whether this may lead to a risk of inconsistencies in the different scenarios and circumstances in which the standard is used. This may become problematic, during firm inspections, if regulatory bodies question the judgments applied and decisions made by engagement teams when determining whether an engagement is within the scope of the proposed standard, particularly where firms may have stretched the scope beyond what was originally intended.

In an effort to reduce this risk, the IAASB may want to consider promoting the current Qualitative Characteristic on “Access to Info or People” to form the principal part of the Prohibition in A1 (d) (ii). Currently, the specific prohibition in A1 d (ii) has been drafted with the underlying focus being on whether or not component auditors are involved. We would propose to change this focus to consider whether all relevant financial records and client prepared evidence are located in one location (with group management). In our opinion, this point is integral to determine whether the proposed ISA for LCE is suitable for a group audit.

We would propose the following wording:

“The ISA for LCE shall not be used if:

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

Any of the group’s individual entities or business units meet the criteria as described in paragraph A1(b) or A1(c); or

(a) Any of the group’s information subject to audit procedures cannot be accessed by the group audit team, including for the group’s component entities; and

(b) A component auditor is used to perform audit procedures for component entities within the group.

An exception to ii(b) above, is that audit procedures may be performed by a [component auditor / a member of the engagement team based at a remote location] on physical items for which there is no reasonable alternative approach other than to use the [component auditor] for the performance of procedures (e.g., attending a physical inventory count or inspecting physical assets).

## 7. Member Bodies and Other Professional Organizations

### Instituto Mexicano de Contadores Públicos (IMCP)

Response to question #1

We are of the view that including the exception to allow using International Standards on Auditing (ISA) for Less Complex Entities (LCE), included in subparagraph (ii) paragraph (d) of section A.1. would lead to uncertainty about the possibility of allowing the use of ISA for LCE when component auditors perform other audit procedures, considering that these procedures may be similar in complexity to those indicated in the exception.

We consider that involving a component auditor in an audit (even when performing simple and straight forward audit procedures) originates complexity in the communication process between the component and principal auditor.

Our comments suggest that this exception is excluded from the additions proposed to the authority for group audits, thus not allowing the use of ISA for LCE where component auditors are involved.

## **1. Do you agree with proposed prohibition on the use ISA for LCE for group audits\** **b. Disagree With Prohibition (Allow All CAs)\** **i. Use of Component Auditors is not a proxy for Complexity**

### **4. National Auditing Standard Setters**

#### **Australian Auditing and Assurance Standards Board (AUASB)**

The AUASB welcomes the inclusion of group audits into the scope of the LCE Standard.

The AUASB does not support the IAASB's proposals to scope out group audits when a component auditor is used (except for specific physical presence considerations).

The AUASB does not consider that the use of component auditors is a proxy for complexity. The AUASB considers that the qualitative characteristics in the Authority for all entities, along with the additional qualitative characteristics relevant for groups, should be sufficiently robust to allow practitioners to determine if the ISA for LCE can be used in an audit of a group.

#### **Canadian Auditing and Assurance Standards Board**

We also believe that removing the proposed prohibition is appropriate for the following reasons:

The involvement of component auditors does not in itself drive complexity of the group audit. The use of component auditors may be due to a practical consideration rather than the complexity of the group itself. The use of the proposed ISA for LCE should be driven by the complexity of the entity and not that of the audit.

### **5. Accounting Firms**

#### **Baker Tilly International**

The presence of component auditors does not of itself introduce complexity to an audit,

No. The presence of component auditors does not of itself introduce complexity to an audit – rather where there is more than one auditor then communication between the auditors is important. A better indicator of complexity in a group is the nature of the business(es) and the environment(s) in which it operates.

For example, a care home business might run 10 care homes. Whether those care homes are in one company or 10 companies makes no difference to the inherent complexity of the ten care home business. If those 10 care home companies are audited by two audit firms, with one auditing the group, then it makes no difference to the complexity of the business or the risks facing a business running 10 care homes.

On the other hand, a healthcare business that runs a care home, a hospital and a pharmacy is likely to be more complex because there are three distinct business sectors. It may also be appropriate to conclude that operating in more than one jurisdiction introduces complexity because there may be differences in operating, regulatory and economic environments and corresponding requirements.

#### **Ernst & Young Global Limited**

Based on our understanding from the Authority document, including consideration of the Appendix – Revisions to the Authority Since the ED-ISA for LCE of the ED-ISA for LCE Part 10, that the intended users of the ED-ISA for LCE will remain relatively broad and open to judgment, we believe that group audits should be allowed to use the ED-ISA for LCE because we do not believe simply having a group structure inherently demonstrates complexity. As such, we do not support the proposed prohibition on the use of the ED-ISA for LCE for group audits where component auditors are involved.

We do not agree with the proposed prohibition in A.1(d)(ii) of the Authority on the use of ED-ISA for LCE for group audits where component auditors are involved, other than in limited circumstances where physical presence is required. Consistent with our comment letter dated 31 January, 2022 on ED-ISA for LCE, we continue to believe that group audits can be less complex in nature and believe that the ED-ISA for LCE should not exclude group audits with component auditors. The fact that an audit is a group audit does not inherently make the audit exhibit characteristics of complexity. For example, an audit can be a group audit with a limited number of business units with the same management, have integrated systems, and operate within the same jurisdiction or country. In this scenario, the use of component auditors may make sense depending on the location of the business units and likely will not result in an overly complex group audit. To acknowledge this situation and similar ones, we believe there needs to be flexibility in the proposed standard for simple group structures and that group auditors should be allowed to determine the applicability of the ED-ISA for LCE for a group audit or for "in-scope" components based on the specific facts and circumstances of the entity and the criteria outlined in Paragraph A3 of ED-ISA for LCE Part 10.

In our view, prohibiting the use of ED-ISA for LCE for group audits when component auditors are involved can lead to situations where auditors, who believe that the ED-ISA for LCE is appropriate for the audit, decide to perform the audit with a single team across several locations instead of appropriately involving component auditors with the adequate competence and capabilities (e.g., local knowledge of business practices and language) which would lead to a higher quality audit.

For the reasons stated above, we believe that paragraph A.1(d)(ii) of the Authority section in ED-ISA for LCE Part 10, which prohibits the use of component auditors, except in certain circumstances, should be removed as the primary determinant of when the ED-ISA for LCE can be used in group audits.

## **MNP LLP**

We do not agree with the proposed prohibition where component auditors are involved. We believe the use of component auditors does not necessarily reflect an increase the complexity of the entity. The decision to use or not component auditors may be driven by the structure and locations of the auditor's firm rather than by the characteristics of the entity. One example requiring specific consideration is the increasing use of remote and hybrid work arrangements by small firms. This may result in one 'office' managed as a single team but spread over many physical locations, timezones or countries. Different firms may structure this as either one or multiple component teams. Excluding component auditors broadly may result in ineligibility of LCE for certain firms but not others creating unnecessary variability and lack of comparability for both auditors and their clients.

In addition, the IAASB should consider clarifying the definition of component auditor directly within the EEM including consideration of remote work arrangements.

The Authority provides examples of where physical presence is required. However, we believe that there are other circumstances where the use of component auditors is not an indicator of complexity. As an example, Canada has two official languages. A component auditor fluent in another language may be beneficial to reduce translation costs, improve client service or manage the confirmation process and follow-up procedures with customers or suppliers. Component auditors may also be helpful for supplementary skillsets such as testing discrete controls within an operation or specified procedures. These circumstances do not increase the complexity of the entity.

## **6. Public Sector Organizations**

### **Office of the Auditor General of Alberta**

We do not agree with the proposed prohibition, specifically A.1 (d) (ii), on the use of ISA for LCE for group audits where component auditors are involved. The use of component auditors in itself does not make a complex audit. The factor of using a component auditor should not be the single and deciding factor that prohibits the use of ISA for LCE. Auditors should be provided the ability to use professional judgement to determine if a group audit is a ISA for LCE or if ISA for More Complex Entities is required. In the public sector there are multiple examples of when a component auditor is used due to location constraints and not due to complexity. It is not uncommon for public sector entities, primarily those entities that are less complex, to not have centralized data or information, and records may be stored in multiple locations. Public sector auditors may use a local auditor for efficiency purposes to complete standard procedures on data/records at specific locations. Although this example is on a less-complex entity, the proposed ISA for LCE would prohibit the ISA for LCE in this situation.

In our view, the key purpose of ISA for LCE is to respond to efficiency considerations (more precisely, inefficiency concerns with ISAs for More Complex Entities), and therefore efficiency considerations need to be given considerably more weight in evaluating ISA for LCE issues.

## **7. Member Bodies and Other Professional Organizations**

### **ASSIREVI**

Moreover, in addition to the circumstance in which the group components are based in other jurisdictions, the need to use one or more component auditors – even within the same jurisdiction – is not necessarily due to the group's complexity but rather to the group auditor's organisational requirements in order to ensure adequate audit quality.

In fact, involvement of a component auditor is often due to:

logistics and efficiency considerations, when the group entities or business units are geographically distant albeit in the same jurisdiction;

the need to perform an efficient audit of the consolidated financial statements by using the same auditor engaged to perform the component's statutory audit (when the statutory audit is mandatory – and likely performed on the basis of the LCE standard) also as the component auditor for the whole group audit.

The proposed EEM in new paragraph A.1 of the ED refers to part 3 of the standard and considers the component auditor as a member of the group engagement team. Thus, it follows that management and supervisory requirements for members of the engagement team established in part 3 are also valid for the component auditor. These requirements appear adequate and

sufficient in the circumstances for less complex components that can be equated to less complex entities (especially in the case of foreign commercial companies).

In summary, the prohibition on the use of a component auditor except in the sole circumstance that their physical presence is necessary to perform a specific audit procedure seems to be contrary to:

the general objectives of adequate audit quality and efficiency of the group audit, while still referring to a less complex group.

### **Botswana Institute of Chartered Accountants (BICA)**

Response:

A group audit may not be categorised as complex by simple involvement of component auditors even other than where physical presence is required. In certain instances a component auditor may need to be engaged due to different jurisdictions laws between parent company and component. The auditor must be allowed to make assessment of complexity of the group by applying other aspects as for single entities and those provided in the current ED without being restricted by involvement of component auditor.

### **Chamber of Auditors of the Czech Republic**

Chamber of Auditors of the Czech Republic (CA CR) welcomes the ED – Part 10 as it aims to increase applying ISA for LCE for further engagements, which are common in the Czech Republic. However, we believe that the prohibition of use of component auditor is too strict and we propose to allow the use of the standard in other situations the work of component auditor is used.

Response:

No. We agree that usage of component auditor could be a sign of potential complexity, but we believe that there can be cases when component auditor can be used and still the group is less complex group and ISA for LCE is still relevant.

For example, we believe that component auditors could be used to perform specific further audit procedures only. In this case, these procedures are planned and resulting audit evidence is assessed by the group auditor. Therefore, there is no complexity from the group audit perspective.

Also, in the European Union there are often entities within one group established in several states. This typically requires use of component auditors in each state due to the local licensing requirements while the group may still not be a complex group.

Further, we are missing definition of the term “audit work”. It is unclear how to interpret the situations when using audit teams within the same network but employed by the separate audit firm in the component country jurisdiction. Or conversely, using the audit members of the group auditor team to perform the work on the component lead by the audit partner in the component country (again due to licencing requirement).

The prohibition of use of component auditor may lead to discrimination of audit firms which are not part of network, as those cannot benefits from including the other country networks’ firm employee to engagement team.

### **Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA)**

While the use of a component auditor adds some additional administrative complexity for the auditor, it isn’t necessarily an indication of complexity of the entity or the group itself. The proposed additional qualitative characteristics for groups recognises that a group can have operations in several jurisdictions and still be “less complex”. Similarly, in jurisdictions that are large geographically, such as Australia, the group may have entities that are geographically distant but still in one jurisdiction. Given the most likely users of ISA for LCEs are SMPs who do not necessarily have operations in multiple jurisdictions or geographic locations, the use of component auditors will often be necessary for group engagements, as it is often more cost effective than the group audit team having to travel to component entities. The local knowledge of the entity that a local component auditor brings to the engagement may also improve audit quality. We also have concerns about potential misuse of the standard in circumstances where component auditors should be used but are not to enable the engagement to remain within the scope of the standard.

### **Chartered Accountants Ireland**

Overall comments

As stated in our response to the earlier consultation in our view it is essential that group audits are included in the scope of the ED-ISA for LCE. In Ireland, group structures are used extensively by private businesses. A large proportion of these group structures would not fall into the specific classes of entities or exhibit the qualitative characteristics that would prohibit the use of ED-ISA for LCE. Statutory audits are required under legislation in Ireland for all but the smallest of these groups. If the standard when issued does not include group audits in its scope, we expect that this will significantly limit the use of the standard in Ireland.

The current proposals would go some way towards addressing this but we believe that the prohibition on the use of component auditors and the numbers of entities and jurisdictions would impact negatively on the usefulness and therefore adoption of this standard in Ireland.

We do not agree with the proposed prohibition on the use of component auditors as defined. We believe that the standard should be available to non-complex groups irrespective of the auditor's arrangements. We believe that the focus should be on the complexity of the component entities with further due consideration given the complexity of the consolidation process as outlined in paragraph A3 of the proposed revisions.

Using a component auditor in another location is not necessarily an indication of complexity in our view but may be down to practical or legal considerations. In many cases, the use of a component auditor may also pose less risk due to knowledge of local laws and regulations.

As an example, many Irish private and non-complex groups have limited operations across the United Kingdom. In these scenarios, all entities would individually be considered non-complex and practically the use of a component auditor is more appropriate due to proximity to the client and knowledge of local laws and regulations. In our view, in this scenario, we would consider the group to be non-complex.

Paragraph A.1 d (ii) permits the use of the standard when the component auditor's involvement is limited to 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). This should also include other audit procedures which might require a physical presence such as inspection of documents which cannot be sent outside the jurisdiction. Please also refer to our response to question 3 relating to the appropriateness of the content of the standard relating the use of component auditor.

## CPA Australia

In our previous submission to the proposed ISA for LCE consultation, we expressed a view that we supported inclusion of group audits if there is no involvement of component auditors in LCE group audits. However, we have reconsidered this view. Having received further feedback from our members and stakeholder, we believe it would be more appropriate to take a principles-based approach to LCE group audits. We are of the view that there could be some circumstances where component auditors may be necessary as part of an LCE group audit. Accordingly, we suggest that rather than a blanket prohibition on the use of component auditors, this should be left to the professional judgement of the group auditor.

We disagree with the restrictive circumstances in which component auditors can be used.

We appreciate the IAASB's intention to make it simpler to apply the ISA for LCE for group audits by proposing a prohibition over the use of component auditors. As noted in the cover letter, based on further feedback we have received, the assessment of the need for component auditors for less complex group audits should be based on the complexity of the group. The prohibition restricts the use of component auditors to circumstances where physical presence is required to undertake specific audit procedures. In our view, there will be instances where component auditors may be required, for a range of circumstances not limited to what is currently proposed (e.g., the audit of an entire overseas component) due to practical considerations. Therefore, we recommend that the IAASB removes the proposed prohibition from the ED and requires the group auditor to exercise professional judgement with respect to whether component auditors are required in certain circumstances. To overcome potential issues, such as inconsistency in applying the proposed group audit requirements in the ISA for LCE, we recommend that the IAASB develops and issues non-authoritative implementation guidance outlining common scenarios where the use of component auditors is appropriate for less complex group audits. The guidance material could include more granular group-specific examples of qualitative and quantitative characteristics based on given scenarios that could support an auditor's assessment of the need for component auditors.

## European Federation of Accountants and Auditors (EFAA) (2)

We do not agree, however, with 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. This will greatly limit use of the standard where component auditors, oftentimes SMPs, are involved. We believe that the standard should allow for more judgment when making the determination on when the involvement of component auditors renders the group audit complex.

We do not agree. While we understand the desire for clarity and consistent application of the standard, we believe that the standard should allow for more judgment when making the determination on when the involvement of component auditors renders the group audit complex.



In our experience component auditors are used for a variety of reasons, not just for more complex groups. Furthermore, a blanket prohibition such as proposed is likely to significantly limit the use of ISA for LCE in some jurisdictions, often when all other qualitative characteristics and specified criteria are met. For example, the proposed approach would mean that an LCE group with a component auditor would be required to use the full suite of ISAs even if the component itself were small and its results not material in the context of the consolidated financial statements. Moreover, 'physical presence' seems particularly restrictive in an age when technology is enabling the performance of audits remotely.

## EXPERTsuisse

We do not agree with the proposed prohibition of the use of the proposed ISA for LCE for group audits where component auditors are involved, other than circumstances where physical presence is required.

We acknowledge that the use of a "bright line" prohibition would reduce the level of judgment by an auditor when determining if the ISA for LCE can be used. Nonetheless, we believe that such a bright line is oversimplifying the issue. In practice we see - for example - many situations, in which SME groups acquire subsidiaries, in which the incumbent auditor is not replaced immediately. For Switzerland – a non-EU country – specifically, we also see a relatively large number of entities holding at least one subsidiary in an EU country to facilitate sales or sourcing activities. Such a structure does, in many cases, neither result in a complex group set up nor in a complex audit. In such situations the ISA for LCE would be prohibited without a valid reason. To put it in other words, the proposed criterion is not overall appropriate to differentiate between "complex" and "non-complex".

## International Federation of Accountants' Small and Medium Practices Advisory Groups (SMPAG)

### GENERAL COMMENTS

As the IAASB will be aware, in its response to the ISA for LCE Exposure Draft and in multiple other letters, the SMPAG raised strong concerns in relation to group audits being excluded from the standard and the impact this could have on severely limiting its use. We therefore welcome the IAASB reconsidering its decision and developing proposals that address audits of less complex groups. We also support the inclusion as a separate Part 10.

However, we do not agree with the prohibition on the involvement of component auditors to be limited to circumstances in which a physical presence is needed. We believe that the standard should be principles-based and allow for more judgment on the complexity of the entity.

The SMPAG does not 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. We believe that the use of component auditors should be principles-based and allow for more judgment.

Component auditors are often used in practice for many reasons (i.e., it is not just limited to more complex groups) and the use of the "bright line" prohibition is likely to significantly impact the use of ISA for LCEs in some jurisdictions, where otherwise the LCE group would meet all the qualitative characteristics and specified criteria. For instance, it currently means that an LCE group would still be subject to the ISAs if it has a component auditor, even if the component itself is small and non-complex and its results do not materially impact the consolidated financial statements, which seems illogical. Moreover, for some less complex group engagements, the number of staff involved can be small and it is straightforward for the component auditors to be part of the engagement team, so it seems impractical for such engagements to still be subject to the ISAs. We suggest the exemption is broadened.

We understand that the IAASB is attempting to take a pragmatic approach, which aids consistency and application of the standard, but in our view, this does not align with the concept that the ISA for LCEs is based on the core requirements of the relevant ISAs. Moreover, the reference to "physical presence" may date the standard given technology advancements, particularly with inventory counts.

## Korean Institute of Certified Public Accountants (KICPA)

The KICPA doesn't agree with the proposed prohibition. The scope of application of ISA for LCE is determined by the characteristics of an entity. Therefore, whether to use a component auditor or not should be determined by the auditor considering the relevant working conditions. The use of a component auditor doesn't appear to have a direct connection with the entity's complexity. For example, the audit of a subsidiary with simple function/structure (e.g., 100% local subsidiary solely responsible for production) performed by a local component auditor is not necessarily more complex than the audit procedure performed by a group auditor at a remote location or audits of multiple subsidiaries performed directly by a group auditor, due to inability to acquire a qualified component auditor because of local conditions.

The circumstances where the use of a component auditor causes complexity are mostly captured in the group's qualitative characteristics (entities or business units within the group, the number of jurisdictions) as proposed by ED-ISA for LCE. It is not appropriate to see the use of a component auditor as a criterion based on which a group's complexity is determined.

Therefore, the use of a component auditor needs to be allowed, without limitations. However, the use of a component auditor by a less complex entity (group) will be limited to a handful of classes of transactions / account balances for a few components as

described in the above. Therefore, it is important to consider such characteristics, when including the ISA 600 (Revised) requirements on the use of component auditor in Part 10.

## Malta Institute of Accountants

We disagree with a blanket prohibition. A principles-based approach is commendable. If it is a non-complex structure (i.e. meeting all other qualitative characteristics, for example with respect to the number of components etc), the auditor should not be prohibited from using the ISA for LCE just because component auditors are involved. The use of component auditors may sometimes be due to more practical considerations in performing the audit rather than due to complexity of the group itself. As long as there is agreement between the auditors on the standards to use, this should not preclude auditors from using ISA for LCE.

Questions as regards to the definition of component auditor could also arise.

## Pan-African Federation of Accountants (PAFA)

### PAFA Response

We do not 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 as it is our view that the involvement of a component auditor (outside of the identified “bright line”) does not automatically imply complexity but could be a reflection of jurisdictional or auditee/auditor circumstances. It is our view that the consideration of the appropriateness of the use of the proposed standard for group audits where components auditors are involved should be principle-based.

## Wirtschaftsprüferkammer (WPK)

However, we believe that the IAASB is too reluctant when it comes to the cases in which the involvement of a component auditor (for whatever reason) precludes the application of the ISA for LCE. We strongly recommend the IAASB to prefer a more principle-based approach in this regard.

No, we do not 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.

We believe that the IAASB is too reluctant when it comes to the cases in which the involvement of a component auditor (for whatever reason) precludes the application of the ISA for LCE.

According to A 1. (d) (i) the ISA for LCE shall not be used if the audit is an audit of group financial statements (group audit) and any of the group’s individual entities or business units meet the criteria as described in A.1. (b) or A.1. (c).

In this respect, we share the IAASB’s view that the application of the ISA should not be permitted.

According to A.1. (d) (ii) the ISA for LCE shall also not be used if the audit is an audit of group financial statements (group audit) and component auditors are involved, except when the component auditor’s involvement is limited to 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).

In this respect, we do not share the IAASB’s view that the application of the ISA for LCE is not permissible for the following reasons:

The use of the component auditor may have different reasons, for example

the group auditor may instruct the involvement of a component auditor because he intends to have certain limited audit procedures performed on site of this component entity (e.g. attending a physical inventory count or inspecting physical assets), the group auditor may also instruct the involvement of a component auditor because he considers this to be necessary to have other specified audit procedures performed on the basis of his risk assessment and expects that this will result in increased and additional audit reliability or

it is conceivable that the component auditor may have to perform a statutory audit due to local legal requirements.

In the cases mentioned above, ISA for LCE would only be permissible for the component in scenario a).

In scenario b), a group auditor decides to instruct the component being audited (in whole or in part) by a component auditor, because he intends to provide additional audit assurance for group purposes, although there may not even be a requirement for this based on ISA 600 (Revised). However, if the result is that the group auditor is not permitted to apply the ISA for LCE at all (if the qualitative criteria are met), the group auditor may decide to refrain from involving component auditors in the future to the extent permissible and justifiable.

Also, in scenario c), the proposals in A 1. d) (ii) would lead to the undesirable result that the ISA for LCE may not be applied at all for less complex entities (provided that the qualitative criteria are otherwise met). This is despite the fact that the entity would isolated be considered as a less complex entity. In many jurisdictions in Europe, a statutory audit is required because the entity exceeds certain size criteria. This affects many companies that themselves meet the requirements of a less complex company.

In our view, arbitrarily prescribing e.g. attending a physical inventory count or inspecting physical assets is not likely to allow the component auditor to apply the ISA for LCE. Having said that, we prefer a principle-based approach on the complexity of both the parent and the component.

Therefore, we recommend to delete A 1. d) (ii).

## **1. Do you agree with proposed prohibition on the use ISA for LCE for group audits\b. Disagree With Prohibition (Allow All CAs)\lii. Focus Should be on the Complexity of Entity and Not on the Audit**

### **4. National Auditing Standard Setters**

#### **Canadian Auditing and Assurance Standards Board**

We also believe that removing the proposed prohibition is appropriate for the following reasons:

The involvement of component auditors does not in itself drive complexity of the group audit. The use of component auditors may be due to a practical consideration rather than the complexity of the group itself. The use of the proposed ISA for LCE should be driven by the complexity of the entity and not that of the audit.

### **5. Accounting Firms**

#### **Grant Thornton International Limited**

We welcome the inclusion of group audits within the scope of the ISA for LCE. However, we are of the view that the criteria used to allow the inclusion of group audits in the scope of the standard are too narrow and, consequently, use of the ISA for LCE may be inappropriately prohibited for certain less complex group audits. As detailed in our response to question 1, we are of the view that the proposed Authority should focus on the complexity of the group rather than how the audit or the engagement team is managed. This approach would be consistent with characteristics that are considered in determining whether the ISA for LCE can be applied to audits of entities that are not groups.

We do not agree with the proposed prohibition on the use on the proposed ISA for LCE for group audits where component auditors are involved, other than in limited circumstances where physical presence is required.

The proposed prohibition inappropriately focuses on the complexity of managing the audit or the engagement team. This is inconsistent with the proposed Authority of the ISA for LCE for audits of entities that are not groups, which focuses on the complexity of the entity being audited and not how the audit is managed. Involving a component auditor is common in more complex group audits, but such involvement is not the cause of that complexity. For example, consider the following situations:

A group comprises a parent company, a subsidiary, and an equity method investment. None of the proposed qualitative characteristics for the group result in the group being considered complex; the parent company holds an investment in the subsidiary, which owns and rents a building. However, component auditors are used with respect to the equity method investment; therefore, the group cannot be audited using the ISA for LCE.

A group comprises a small number of sales offices across the same jurisdiction. Each sales office keeps its own accounting records. None of the proposed qualitative characteristics for groups result in the group being considered complex. Each of the sales offices are determined to be a component and component auditors from different offices of the group auditor's firm (that is, all component auditors are from the same firm) are used due to the geographical dispersion of the sales offices. Therefore, the group cannot be audited using the ISA for LCE.

We, therefore, recommend that the proposed Authority of the ISA for LCEs for audits of financial statements of groups be focused on characteristics that make the group complex.

### **SRA (NL)**

We do not agree with the proposed prohibition to use the proposed ISA for LCE for group audits where component audits are involved, other than in limited circumstances where physical presence is required. The arguments provided by IAASB, as included in par. 12 of the Explanatory Memorandum, are not convincing. We feel, that in cases where a component auditor is engaged, this circumstance does not imply automatically that the component is a complex entity; as a consequence the involvement of a component auditor in our view does not have to lead to the proposed prohibition. And, as also stipulated in the last sentence of par. 12, the use of the LCE standard should be driven by the complexity of the entity and not of the audit. It is therefore illogical to require the application of all ISA's instead of the LCE standard in case of involvement of a component auditor.

We wonder whether the earlier decision of the IAASB to develop a separate LCE standard has influenced the proposed prohibition in case of involvement of a component auditor.

### **7. Member Bodies and Other Professional Organizations**

## Chartered Accountants Ireland

We do not agree with the proposed prohibition on the use of component auditors as defined. We believe that the standard should be available to non-complex groups irrespective of the auditor's arrangements. We believe that the focus should be on the complexity of the component entities with further due consideration given the complexity of the consolidation process as outlined in paragraph A3 of the proposed revisions.

## Korean Institute of Certified Public Accountants (KICPA)

The KICPA doesn't agree with the proposed prohibition. The scope of application of ISA for LCE is determined by the characteristics of an entity. Therefore, whether to use a component auditor or not should be determined by the auditor considering the relevant working conditions. The use of a component auditor doesn't appear to have a direction connection with the entity's complexity. For example, the audit of a subsidiary with simple function/structure (e.g., 100% local subsidiary solely responsible for production) performed by a local component auditor is not necessarily more complex than the audit procedure performed by a group auditor at a remote location or audits of multiple subsidiaries performed directly by a group auditor, due to inability to acquire a qualified component auditor because of local conditions.

The circumstances where the use of a component auditor causes complexity are mostly captured in the group's qualitative characteristics (entities or business units within the group, the number of jurisdictions) as proposed by ED-ISA for LCE. It is not appropriate to see the use of a component auditor as a criterion based on which a group's complexity is determined. It is also unclear why the use of a component auditor is limited and allowed only for physical presence. Paragraph A131 of ISA 600 (Revised) stated that the scope of work that can be performed in response to the assessed risks of material misstatement includes further audit procedures on one or more classes of transactions, account balances or disclosures. There seems to be no meaningful difference between the use of a component auditor for additional component-level audit procedures on a handful (1~2) of classes of transactions / account balances as described in the above paragraph, and the use of a component auditor for physical presence. For example, the ED prohibits the application of ISA for LCE in the case of limited use of a component auditor for financial institution or account receivable confirmation. This makes us question what the difference between such limited audit procedure and physical presence is.

Therefore, the use of a component auditor needs to be allowed, without limitations. However, the use of a component auditor by a less complex entity (group) will be limited to a handful of classes of transactions / account balances for a few components as described in the above. Therefore, it is important to consider such characteristics, when including the ISA 600 (Revised) requirements on the use of component auditor in Part 10.

## 1. Do you agree with proposed prohibition on the use ISA for LCE for group audits\b. Disagree With Prohibition (Allow All CAs)iii. Would Limit Adoption

## 4. National Auditing Standard Setters

## Austrian Chamber of Tax Advisors and Public Accountants (KSW)

We have concerns about the restrictiveness of the scope by excluding engagements involving component auditors, considering the way European companies operate in a single market.

No, we do not agree with the outright ban on component auditors. As result of such a restrictive scope the standard will be used in a very limited capacity and even groups with branches may not be eligible. We therefore prefer a more principle-based approach. We would need criteria to determine which audit of groups may be considered less complex or not.

## Institut der Wirtschaftspruefer in Deutschland e.V.(IDW)

We welcome the proposed incorporation of a separate part within the ISA for LCE to deal with audits of simple group financial statements. However, we believe that the proposed authority on when the ISA for LCE may be used for group audits is too restrictive by not permitting the use of component auditors in general and is too restrictive in the nature of the qualitative characteristics relevant to group audits. We also note that proposed paragraph A3 is too restrictive in the application of the nature of the finance function to the group.

We believe that if the audit of a group is simple, even with the use of component auditors and when the group has a decentralized finance function across the entities and business units, the application of the ISA for LCE ought to be permitted. Furthermore, the additional characteristics for group audits need to be more focused on complexity arising from having more than several, rather than having just a few, entities and business units.

We do not agree with the proposed prohibition on the use of the proposed ISA for LCE for group audits where component auditors are involved, and in particular, to the limited circumstances where physical presence is required. There are many circumstances in which small and mid-sized audit firms use component auditors in other locations to perform audit work on components in other locations within a country, whether for expertise, convenience, or other reasons. Furthermore, within Europe, in which countries are often geographically smaller and there are many cross-border businesses, there may be jurisdictional differences requiring local expertise (e.g., local law, tax or business practices, and differences in official languages),

and it is not uncommon for small and mid-sized firms to use component auditors for their local expertise or other convenience reasons. Often, such components may relate to very simple subsidiaries or branches reflecting simple production, sales, or other operations. In our view, it would be disproportionate to claim that such audits are so complex that the LCE standard cannot be used simply because of that fact that the financial statements constitute group financial statements as defined in ISA 600 (Revised). Permitting the use of component auditors would simply mean that Part 10 would need to be augmented by the relevant requirements in ISA 600 (Revised) on the use of component auditors.

We therefore urge the IAASB not to preclude the use of the ISA for LCE for audits of group financial statements involving the use of component auditors.

## 7. Member Bodies and Other Professional Organizations

### Accountancy Europe

No, we believe that prohibiting the use of the proposed standard for group engagements where component auditors are involved will limit the applicability of the standard in practice and reduce its attractiveness. Hence, audits of simple group structures, where none of the components can be classified as complex and the group engagement partner, based on an assessment using professional judgement, determines that he or she can be sufficiently involved in the work on components for the group audit purposes, should be included in the scope.

### Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA)

#### General comments

We welcome the opportunity to comment on the proposed Part 10 of the IAASB's proposed ISA for LCE. We commend the IAASB for responding to the feedback from the ED on ISA for LCE that group audits should be consulted upon further, and as a result amending the scope in the draft ISA for LCE to include audits of group financial statements. We believe that scoping the audits of less complex groups into ISA for LCE will result in wider adoption of the standard. However, as we note in our response to Q1, we do have some concerns with the exclusion of less complex groups which require component auditors, other than in limited circumstances, as we believe this will limit the number of less complex groups able to apply the standard which could, in turn, hamper the adoption of the standard.

While we understand that there needs to be clear guidance to assist practitioners in forming their professional judgement as to whether a group is complex, we believe that the proposed prohibition on the involvement of component auditors, other than where physical presence is required to perform specific audit procedures, is too strict and will exclude too many less complex groups from the scope of the standard. As demonstrated by the feedback on group engagements received in response to the exposure draft on the proposed ISA for LCEs, not being able to use the standard for group engagements would be a disincentive to many practitioners and may have a significant negative impact on the adoption of the standard.

Following the public consultation of the ED-ISA for LCE and more specifically during the September 2022 meeting, the Board generally supported the proposed changes to the draft Authority which included the use of language reflecting the ability for regulatory authorities to determine quantitative thresholds for their jurisdiction, and agreed to explain how quantitative indicators were considered during the development of the proposed standard. These changes already narrow the scope of the standard from what was presented in the ED. Therefore, the only groups that will be eligible to use ISA for LCE after applying the general provisions of the Authority and the specific group qualitative characteristics will be small, less complex groups where use of a component auditor will not be complex.

We therefore believe that the group qualitative characteristics included in the Authority should be sufficient for practitioners to determine whether a group is less complex. It may be appropriate to include some considerations on use of component auditors, but the proposed prohibition is too strict and should be removed.

### Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (CNDCEC)

CNDCEC is pleased to provide you with its comments on 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). As a professional accounting organization, CNDCEC strongly supports the implementation of the proposed ISA for LCE in order to increase efficiency in the audit of LCE including less complex groups. For these reasons we expect an extensive application of ISA for LCE and we also suggest the IAASB to supervise the actual application of the standard in order to avoid prescriptions that could exclude a significant number of LCE. In this regard, we think that the proposed prohibition on the use of the proposed ISA for LCE for group audits where component auditors are involved will limit the application of the proposed ISA for LCE for a large number of less complex groups.



We thank you for the opportunity to comment. You will find hereunder the answers to your questions.

We do not agree, the provision may be very restrictive since, in case of small non-complex groups with subsidiaries located in multiple jurisdictions, understanding the operations would entail knowing both the local legislation and the language used in the documents and information therein, and would then require the involvement of local auditors (component auditors). Furthermore, if component auditors were to be involved (i.e., in limited circumstances when their physical presence is required) it would be appropriate to ask them to provide a documentation proving both their ability to carry out the engagement and their independence of the component, and then to make reference to the requirements in ISA 600, par. 40 and 41 on the communications between the group auditor and component auditor.

### European Federation of Accountants and Auditors (EFAA)

Furthermore, a blanket prohibition such as proposed is likely to significantly limit the use of ISA for LCE in some jurisdictions, often when all other qualitative characteristics and specified criteria are met. For example, the proposed approach would mean that an LCE group with a component auditor would be required to use the full suite of ISAs even if the component itself were small and its results not material in the context of the consolidated financial statements. Moreover, 'physical presence' seems particularly restrictive in an age when technology is enabling the performance of audits remotely.

Moreover, 'physical presence' seems particularly restrictive in an age when technology is enabling the performance of audits remotely.

### 1. Do you agree with proposed prohibition on the use ISA for LCE for group audits\b. Disagree With Prohibition (Allow All CAs)\iv. Adds Complexity to Decision-Making Process

#### 4. National Auditing Standard Setters

#### Canadian Auditing and Assurance Standards Board

##### Overall Comments

We are pleased with the IAASB's proposal to include audits of group financial statements (group audits) in the scope of the proposed ISA for LCE. Not all group audits exhibit characteristics of complexity. As such, audits of less complex groups should be within the scope of the proposed ISA for LCE.

However, we have significant concerns with the proposed "bright line" exclusion of the use of the proposed ISA for LCE when component auditors are involved. This is because there is significant judgment involved in determining:

- whether the individual performing audit procedures on the component is a component auditor or a group auditor; and
- under what circumstances, other than attending a physical inventory count or inspecting physical assets, the proposed ISA for LCE can be used where physical presence may be needed for a specific audit procedure.

We believe that the proposed prohibition could increase the complexity of the auditor's decision-making process regarding the use of the proposed ISA for LCE. Consequently, we believe the prohibition will considerably limit the application of the proposed ISA for LCE in Canada and will be a significant factor as we assess whether the proposed ISA for LCE meets the needs of Canadians.

As a result, we recommend that the Authority not include a prohibition when component auditors are involved. In our view, the qualitative characteristics set out in the Authority that describe the typical LCE, in addition to the group-specific qualitative characteristics set out in ED-ISA for LCE Part 10, should be adequate for the purpose of determining the appropriate use of the proposed ISA for LCE for group audits.

We further explain these concerns and our recommendation in our response to Question 1 in the Appendix to this letter.

We do not agree with the proposed prohibition. We have significant concerns that the proposed prohibition will make the auditor's consideration of whether the proposed ISA for LCE is appropriate for use more complicated. This is because there is no "bright line" criteria or guidance to assist the auditor's judgment in determining:

- a) whether the individual performing audit procedures on the component is a component auditor or a group auditor; and
- b) under what circumstances, other than attending a physical inventory count or inspecting physical assets, the proposed ISA for LCE can be used where physical presence may be needed for a specific audit procedure.

We are concerned that the judgment required in (a) and (b) above may have unintended consequences, such as the following:

- The firm's structure would have a greater impact on whether the auditor could use the proposed ISA for LCE than the complexity of the entity itself. For example, smaller firms have fewer resources than larger firms and may be more likely to be excluded from the proposed ISA for LCE due to the need to outsource resources. The prohibition may result in disproportionately scoping out smaller firms from using the proposed ISA for LCE.

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- There may be inconsistent application of the proposed ISA for LCE in practice, as practitioners may arrive at differing conclusions.
- The auditor may be inclined to not use the proposed ISA for LCE, as practice inspectors may challenge the applicability of the Authority in a group audit.
- The auditor's decision to use component auditors may be driven by whether the auditor wishes to use the proposed ISA for LCE instead of the ISAs. As a result, auditors may avoid involving component auditors when it would otherwise be beneficial.

Judgment in Determining if the Individual Is a Component Auditor or a Group Auditor

ISA 600 (Revised) is written in a manner that appropriately allows auditors the flexibility to use judgment when determining whether individuals performing audit procedures on a component are component auditors or group auditors. We believe this is because ISA 600 (Revised) was developed to address the most common scenarios when component auditors are involved in a group audit and can be adapted as necessary in other scenarios. However, when this flexibility is applied to the proposed ISA for LCE, it increases the complexity of applying the Authority.

Our Advisory Group identified scenarios in practice where it may not be straightforward to determine whether individuals performing audit procedures on a component would be considered component auditors or group auditors. Such scenarios include when the group engagement partner uses an individual from:

- another office, within the same firm as the group auditor to perform audit procedures on the component;
- another firm to perform audit procedures on the component; or
- another firm to perform audit procedures on the group and on the component.

In considering these scenarios, the Advisory Group members arrived at different conclusions regarding the application of the proposed ISA for LCE. Some concluded that the use of the proposed ISA for LCE would be prohibited, while others concluded that it could be used. They noted that in these scenarios there is no definitive way to decide whether an individual is a component auditor or a group auditor, as it involves judgment and depends on the circumstances of the engagement.

The Advisory Group identified several factors that they may consider in exercising their judgment on whether the individual performing audit procedures on the component is a component auditor. Those factors include:

- whether another partner besides the group engagement partner oversees the auditor performing audit procedures on the component;
- the extent of the individual's involvement beyond the circumstances requiring physical presence to perform audit procedures;
- the manner and extent to which the group engagement partner instructs the individual (e.g., clear instructions limited to the performance of specific audit procedures versus broad instructions requiring the individual to apply professional judgment in addressing the risk of material misstatements); and
- how the individual communicates the results of the audit procedures performed to the group engagement partner (e.g., providing separate reporting correspondence versus working papers with the results of audit procedures performed).

Judgment in Determining Other Circumstances where a Component Auditor's Physical Presence May Be Needed

The proposed Authority permits the use of proposed ISA for LCE in limited circumstances where the physical presence of a component auditor is needed for a specific audit procedure in a group audit, such as, attending an inventory count or inspection of physical assets. However, it is unclear to us whether the limited exception can be applied to circumstances other than those indicated as examples.

Our Advisory Group identified additional circumstances where a physical presence at the component may be needed, such as when:

- a local auditor is needed to physically inspect documentation in a foreign language;
- the internet service in remote locations does not allow for documents to be digitized and transmitted electronically;
- the group auditor determines that there is an issue at a component and needs an auditor to meet in person with the client;
- an audit procedure requires verifying whether employees on the payroll work at the component and such verification needs to be observed; or
- a walkthrough needs to be performed and documented on certain controls, whether automated or manual, to confirm that they are being followed.

Our Recommendation

To address the concerns with the "bright line" prohibition, we recommend that group audits can be dealt with in the proposed ISA for LCE as follows:

- Remove the proposed prohibition on using the proposed ISA for LCE when component auditors are involved.

- Use the qualitative characteristics in the Authority that describe the typical LCE, in addition to the group-specific qualitative characteristics, to determine whether the proposed ISA for LCE can be used for a group audit. We believe complex entities with group financial statements would be appropriately scoped out of proposed ISA for LCE based on the qualitative characteristics set out in the Authority, including:
  - the number of lines of business or revenue streams;
  - whether there is a larger key management team with multiple reporting lines;
  - whether the finance function is not centralized and has numerous employees;
  - the number of entities or business units in multiple jurisdictions; or
  - whether there is a complicated consolidation process.

In our view, removing the proposed prohibition on the use of the proposed ISA for LCE when component auditors are involved would support better consistency of the auditor's determination of whether the proposed ISA for LCE can be used. In addition, it would be easier to apply in practice.

We also believe that removing the proposed prohibition is appropriate for the following reasons:

- The involvement of component auditors does not in itself drive complexity of the group audit. The use of component auditors may be due to a practical consideration rather than the complexity of the group itself. The use of the proposed ISA for LCE should be driven by the complexity of the entity and not that of the audit.
- It would avoid disproportionately scoping out smaller firms from using the proposed ISA for LCE as they have fewer resources than larger firms and are more likely to go outside their firm to hire/outsource resources.

We recognize that there may be concerns that the absence of the proposed prohibition may inappropriately scope in group financial statements that may be complex. In our view, this risk is low because of the robust qualitative characteristics of less complex entities, including those specific to less complex groups, set out in the Authority. The Authority will require auditors to consider the qualitative characteristics of the entity to determine if the proposed ISA for LCE is appropriate for use. Therefore, the auditor would not be able to use the proposed ISA for LCE for a more complex group as it would not exhibit those qualitative characteristics.

#### Alternative Options Considered

We recognize the IAASB's view, noted in paragraph 13 of the Explanatory Memorandum, that the use of component auditors should be excluded from the scope of the proposed ISA for LCE. Therefore, before arriving at our recommendation set out above, we considered whether our concerns with the "bright line" prohibition could be alleviated through modifications other than removing the prohibition. For example, we considered:

- Retaining the prohibition and adding EEM to assist auditors in determining whether an individual performing audit procedures on the component is a component auditor or a group auditor. However, ISA 600 (Revised) does not contain any material that could be used as a basis for such EEM. Adding EEM in the proposed ISA for LCE that is not in ISA 600 (Revised) could lead to confusion and inconsistency in the application of ISA 600 (Revised). Further, even with such EEM, the auditor would still need to exercise discretion when determining whether the individual performing work on the component is a component auditor or a group auditor.

## 1. Do you agree with proposed prohibition on the use ISA for LCE for group audits\b. Disagree With Prohibition (Allow All CAs)\v. Other Reasons

### 7. Member Bodies and Other Professional Organizations

#### ASSIREVI

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 standard" or the "standard"). Nevertheless, we feel that the prohibition set out in paragraph A.1 (d) (ii) of the Authority, establishing that the proposed LCE standard cannot be used when a component auditor is involved in an audit, unless the component auditor's physical presence is required to perform a specific audit procedure, raises a number of significant critical issues.

Firstly, the prohibition to use the standard when a component auditor is involved, except in those limited circumstances where their physical presence is required, does not seem to be in line with one of the qualitative characteristics of a group audit to be considered in order to apply the standard as per proposed paragraph A.3 of the Authority, i.e., that "group entities or business units are limited to few jurisdictions (e.g., 3 or less)". The standard itself, in fact, acknowledges that a less complex group may include components based in different countries.

This same characteristic, i.e., the presence of group entities or business units in other jurisdictions, while the individual entities and the group maintain their less complex characteristics, as envisaged by the LCE standard, may require, as it is often the case, the involvement of the local component auditors not only in the form of their physical presence for a specific audit procedure

(e.g., for attending a physical inventory count) but also because knowledge of the local language and regulations may be necessary and audit procedures cannot always be performed remotely.

In summary, the prohibition on the use of a component auditor except in the sole circumstance that their physical presence is necessary to perform a specific audit procedure seems to be contrary to:  
the qualitative characteristic of the above-mentioned lower level of complexity (“group entities or business units are limited to few jurisdictions (e.g., 3 or less)”);

### **International Federation of Accountants’ Small and Medium Practices Advisory Groups (SMPAG)**

The SMPAG is also concerned about potential unintended consequences of the exemption on SMPs who could be less often engaged to act as component auditors. This would impact the audit market as SMPs may ultimately exit the market, resulting in enhanced market concentration issues, which is not in the public interest.

### **Nordic Federation of Public Accountants (NRF)**

We appreciate the challenges in determining the scope of included groups, but we are concerned that the proposed scope will exclude a large number of less complex groups and hence affect the overall use of the standard. Therefore, we would have preferred a more principles-based approach that would have allowed for more professional judgments.

We believe the relevance and cost-benefit value of future audits of LCEs are quite strongly linked to the success and broad adoption of the LCE standard. In this regard, the way the IAASB will address and design the scope of prohibited group audits is very important since it will affect the overall use of the LCE standard. Auditors will not invest time or money in understanding and applying the LCE standard if many of their LCE audits will be excluded from the scope.

Group audits in relation to the usability of the LCE standard is closely linked to ISA 600 (Revised), which has not even become effective yet. Also, as noted in the ED the revised definition of group financial statements included in the revised standard will most likely deem more LCEs to be a group than under extant ISA 600.

In addition, ISA 600 (Revised) introduces new definitions of component auditor and engagement team. There are already concerns and uncertainties about how to interpret these key definitions. These issues will affect how to interpret the scope of group audits in the LCE standard.

In our view, using a principles-based approach that allows the use of the LCE standard on less complex groups, in which all entities are less complex, is more consistent with the general drafting of the standard. Such approach would also include more less complex groups in the scope of the LCE standard. Although we appreciate that allowing the use of the standard on group audits where component auditors are involved will impact the suggested drafting of Part 10, this would still be our preferred option.

However, since such an option most likely would impact the timing of the approval of the standard, we accept the proposed scope.

## **1. Do you agree with proposed prohibition on the use ISA for LCE for group audits?c. Dont agree with Groups being in Scope**

### **6. Public Sector Organizations**

#### **US Government Accountability Office**

We do not support the IAASB’s efforts to make group audit part of a standard for the audit of financial statements of less complex entities (LCE). We believe that group audit is inherently complex and not appropriate for LCE financial statement audit. We believe that there is an inherent risk of group audit for LCEs being applied to more complex entities. In addition, we find that the qualitative characteristics are insufficient to identify appropriate circumstances for using a group audit for an LCE financial statement audit. While we agree with the exclusion of component auditors in group audits of LCEs, we find that the exclusion of requirements and application material for how to use component auditors in the limited circumstances allowed problematic.

We do not believe that group audit should be included in the ISA for LCE as a group audit is inherently complex. We believe that there is an inherent risk of group audit for LCEs being applied to more complex entities, which may lead to inappropriate conclusions.

The decision to exclude component auditors is misleading. The allowance for component auditors to be used in limited circumstances, for example physical presence being required, creates the risk for application more broadly and outside of the intention of the ISA. In addition, if component auditors are allowed to be used in a limited capacity, then the standard should

have guidance for how a component auditor should be treated, which can be achieved by adding such guidance to the ISA for LCEs or adding language directing auditors to other ISAs for guidance.

## 9. Individuals and Others

### John Kelly

That said, I cannot imagine how a group audit could by any stretch of the imagination be “less complicated.” Even if all that is done is to use another firm for “physical presence.” And even then, as an auditor I would want to apply all the requirements of 600, particularly the communication requirements to be sure the “physical presence auditor” did their job – legal liability flows to the consolidation audit partner.

I would agree, but only if it is understood that the exclusion makes the proposed LCE standards have a very narrow applicability; perhaps no applicability at all. And perhaps an auditor might be prudent not to apply it even if they could. See my point C above.

## 1. Do you agree with proposed prohibition on the use ISA for LCE for group audits?le. Additional Comments (Does not Tie)li. Alternative Suggestions

### 4. National Auditing Standard Setters

#### Canadian Auditing and Assurance Standards Board

Add requirements and EEM to Part 10 to address situations when the audit involves component auditors, but the entity is otherwise an LCE. A draft of Part 10 that the IAASB discussed in September 2022 contained material addressing component auditors. The material was clearly identified through shading as only relevant when component auditors are involved in the audit (see also our response to Question 3). Such requirements and EEM are necessary to ensure that the group auditor interacts appropriately with the component auditor.

#### Alternative Options Considered

We recognize the IAASB’s view, noted in paragraph 13 of the Explanatory Memorandum, that the use of component auditors should be excluded from the scope of the proposed ISA for LCE. Therefore, before arriving at our recommendation set out above, we considered whether our concerns with the “bright line” prohibition could be alleviated through modifications other than removing the prohibition. For example, we considered:

Retaining the prohibition and adding more examples in the EEM to clarify under what other circumstances the proposed ISA for LCE can be used where physical presence may be needed for a specific audit procedure. Such clarity could lead to broader use of the proposed ISA for LCE for smaller firms, as they are more likely to outsource their resources when physical presence is required in a group audit than larger firms. However, it would not address our other concern regarding the auditor’s judgment in determining whether the individual performing work on the component is a component auditor or a group auditor.

#### Determining When the Audit is a Group Audit

In addition to our recommendations above, we recommend that the Authority provide additional EEM on group financial statements to better support auditors in applying the Authority of proposed ISA for LCE to group audits.

We recommend that the IAASB make the following changes in the EEM to the Authority as they are fundamental to helping auditors determine when the audit is a group audit:

- Move the definitions of “group financial statements” and “component” so they are more prominently located than their current locations in the Glossary of Terms and footnote, respectively.
  - The ED-ISA for LCE Part 10 included the definition of “group financial statements” in the Glossary of Terms. We recommend that this definition, with its integrated description of the consolidation process, be made more prominent in the Authority, as it is fundamental for the auditor’s determination of whether the audit is a group audit. Doing so would emphasize that the consolidation process includes the equity method of accounting and, therefore, is considered group financial statements. This was a point of confusion for our Advisory Group.
  - The ED-ISA for LCE Part 10 included the definition of “component” in a footnote to the EEM in the Authority. We recommend that this definition be moved from the footnote to EEM in the Authority. The definition will help auditors understand how a component may be structured, such as by entities, business units, function or business activities.
- Provide further explanation of the consolidation process. We recommend adding EEM in the Authority based on paragraph A27 of ISA 600 (Revised), to explain that “consolidation process” is not the same as “consolidation” or “consolidated financial statements” as defined or described in financial reporting frameworks. Such change would clarify and improve the auditor’s understanding that the term refers more broadly to the process used to prepare group financial statements. It would also emphasize the significance of the consolidation process as it relates to group financial statements and a group audit.



## 5. Accounting Firms

### Ernst & Young Global Limited

Additionally, in our view, the limited circumstances (where physical presence is required) presented in the ED-ISA for LCE Part 10 for the use of component auditors does not appear to substantiate the use of component auditors as defined by ISA 600 (Revised). Rather, the situation described in ED-ISA for LCE Part 10 is the inclusion of additional members on the engagement team as allowed under ISA 220 (Revised). Therefore, if the prohibition of using component auditors is not removed altogether, we suggest removing this carveout from ED-ISA for LCE Part 10 as we don't believe the inclusion of an auditor for the sole purpose of performing a physical inventory or fixed asset observation constitutes involvement of a component auditor.

If the proposed prohibition in ED-ISA for LCE Part 10 on group audits where component auditors are involved remains in the ED-ISA for LCE Part 10, we believe the carve out for the "limited circumstances where a physical presence is needed" should be removed from the requirement. We believe that the example of performing audit procedures in another physical location as described in ED-ISA for LCE Part 10 includes situations that do not necessarily involve component auditors. Paragraph A1 of ISA 220 (Revised) and Paragraph 3 of ISA 600 (Revised) indicate that ISA 600 (Revised) "may be useful" when the engagement team uses individuals from another firm and provides examples of attending a physical inventory count or inspecting property, plant and equipment. Additionally, Paragraph A17 of ISA 220 (Revised) creates the distinction between a component auditor and attendance at a physical inventory count or inspecting a physical fixed asset at a remote location. This distinction in both ISAs indicates that a "location" that is subject to a physical inspection should not automatically fall into the definition of a "component" and that an individual from another firm performing audit procedures at these locations is included as a member of the engagement team, but not in the capacity of a component auditor. We believe this distinction is important because the individuals performing physical counts or asset verifications are performing procedures as instructed through direct supervision and review, rather than a component auditor who is typically involved in risk assessment procedures and designing and performing procedures responsive to the assessed risks for the purpose of a group audit.

As a result, we recommend that the IAASB remove the carve out for the "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)" from the requirement at Paragraph A1(d)(ii) and instead include guidance in the Essential Explanatory Material (EEM) based on the content in ISA 220 (Revised) and ISA 600 (Revised). The guidance in the EEM should explain that involving individuals from another firm to attend a physical inventory count or inspect property, plant and equipment does not automatically result in these individuals meeting the definition of component auditors, although they are members of the engagement team because they are performing audit procedures.

## 1. Do you agree with proposed prohibition on the use ISA for LCE for group audits?e. Additional Comments (Does not Tie)ii. Clarifications or Guidance NeededIn Relation to Definitions of CA or GA

### 4. National Auditing Standard Setters

#### American Institute of Certified Public Accountants (AICPA)

If our understanding is correct, while it may seem obvious to many auditors and standard setters, to avoid any confusion for a typical auditor who would use the proposed ISA for LCE, we recommend that the EEM on page 14 of 24 of the exposure draft under the heading "Component Auditors" be revised to include a statement as follows:

The auditor may involve an other auditor in the audit of financial statements that are not group financial statements (for example, to observe the inventory count or inspect physical fixed assets at a remote location). That other auditor is not a component auditor and the use of the ISA for LCE is permitted.

#### Canadian Auditing and Assurance Standards Board

##### Overall Comments

We are pleased with the IAASB's proposal to include audits of group financial statements (group audits) in the scope of the proposed ISA for LCE. Not all group audits exhibit characteristics of complexity. As such, audits of less complex groups should be within the scope of the proposed ISA for LCE.

However, we have significant concerns with the proposed "bright line" exclusion of the use of the proposed ISA for LCE when component auditors are involved. This is because there is significant judgment involved in determining:

- whether the individual performing audit procedures on the component is a component auditor or a group auditor; and

- under what circumstances, other than attending a physical inventory count or inspecting physical assets, the proposed ISA for LCE can be used where physical presence may be needed for a specific audit procedure.

We believe that the proposed prohibition could increase the complexity of the auditor's decision-making process regarding the use of the proposed ISA for LCE. Consequently, we believe the prohibition will considerably limit the application of the proposed ISA for LCE in Canada and will be a significant factor as we assess whether the proposed ISA for LCE meets the needs of Canadians.

As a result, we recommend that the Authority not include a prohibition when component auditors are involved. In our view, the qualitative characteristics set out in the Authority that describe the typical LCE, in addition to the group-specific qualitative characteristics set out in ED-ISA for LCE Part 10, should be adequate for the purpose of determining the appropriate use of the proposed ISA for LCE for group audits.

We further explain these concerns and our recommendation in our response to Question 1 in the Appendix to this letter.

We do not agree with the proposed prohibition. We have significant concerns that the proposed prohibition will make the auditor's consideration of whether the proposed ISA for LCE is appropriate for use more complicated. This is because there is no "bright line" criteria or guidance to assist the auditor's judgment in determining:

- whether the individual performing audit procedures on the component is a component auditor or a group auditor; and
- under what circumstances, other than attending a physical inventory count or inspecting physical assets, the proposed ISA for LCE can be used where physical presence may be needed for a specific audit procedure.

We are concerned that the judgment required in (a) and (b) above may have unintended consequences, such as the following:

- The firm's structure would have a greater impact on whether the auditor could use the proposed ISA for LCE than the complexity of the entity itself. For example, smaller firms have fewer resources than larger firms and may be more likely to be excluded from the proposed ISA for LCE due to the need to outsource resources. The prohibition may result in disproportionately scoping out smaller firms from using the proposed ISA for LCE.
- There may be inconsistent application of the proposed ISA for LCE in practice, as practitioners may arrive at differing conclusions.
- The auditor may be inclined to not use the proposed ISA for LCE, as practice inspectors may challenge the applicability of the Authority in a group audit.
- The auditor's decision to use component auditors may be driven by whether the auditor wishes to use the proposed ISA for LCE instead of the ISAs. As a result, auditors may avoid involving component auditors when it would otherwise be beneficial.

#### Judgment in Determining if the Individual Is a Component Auditor or a Group Auditor

ISA 600 (Revised) is written in a manner that appropriately allows auditors the flexibility to use judgment when determining whether individuals performing audit procedures on a component are component auditors or group auditors. We believe this is because ISA 600 (Revised) was developed to address the most common scenarios when component auditors are involved in a group audit and can be adapted as necessary in other scenarios. However, when this flexibility is applied to the proposed ISA for LCE, it increases the complexity of applying the Authority.

Our Advisory Group identified scenarios in practice where it may not be straightforward to determine whether individuals performing audit procedures on a component would be considered component auditors or group auditors. Such scenarios include when the group engagement partner uses an individual from:

- another office, within the same firm as the group auditor to perform audit procedures on the component;
- another firm to perform audit procedures on the component; or
- another firm to perform audit procedures on the group and on the component.

In considering these scenarios, the Advisory Group members arrived at different conclusions regarding the application of the proposed ISA for LCE. Some concluded that the use of the proposed ISA for LCE would be prohibited, while others concluded that it could be used. They noted that in these scenarios there is no definitive way to decide whether an individual is a component auditor or a group auditor, as it involves judgment and depends on the circumstances of the engagement.

The Advisory Group identified several factors that they may consider in exercising their judgment on whether the individual performing audit procedures on the component is a component auditor. Those factors include:

- whether another partner besides the group engagement partner oversees the auditor performing audit procedures on the component;
- the extent of the individual's involvement beyond the circumstances requiring physical presence to perform audit procedures;
- the manner and extent to which the group engagement partner instructs the individual (e.g., clear instructions limited to the performance of specific audit procedures versus broad instructions requiring the individual to apply professional judgment in addressing the risk of material misstatements); and

- how the individual communicates the results of the audit procedures performed to the group engagement partner (e.g., providing separate reporting correspondence versus working papers with the results of audit procedures performed).

## Compagnie Nationale des Commissaires aux Comptes (CNCC) and Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)

To clarify the definition of component auditor however, we would add in the EEM for the part related to Component Auditors, that follows paragraph A.1. (d) (ii), that “a component auditor is an auditor who performs audit work at the request of the group auditor, related to a component for purposes of the group audit. [...]”

The reason why we ask for this addition lies in paragraphs 24, 14 (c) – definition of “Component auditor” – and A23 (in link) of ISA 600 revised. Paragraph 24 of ISA 600 revised requires the group auditor to request the component auditor to confirm that the component auditor will cooperate with the group auditor, thereby establishing that the component auditor works upon request of the group auditor. Therefore, although the component auditor is part of the engagement team, he is clearly different/separate from the group auditor and works at his request.

## Hong Kong Institute of Certified Public Accountants (HKICPA)

During the COVID-19 crisis, there were numerous circumstances that non-Hong Kong auditors (e.g., auditors from Mainland China) were involved in Hong Kong audits due to travel restrictions and Hong Kong auditors were not able to carry out physical inspection themselves or to verify the books and records of the clients kept overseas (e.g., as required under local legislation). Such assistance from other auditors was needed not because it was a “group audit”; it was also needed for an audit of a single company with operations in Mainland China. The arrangement could be regarded as the use of “borrowed staff” (within or outside the network) by the Hong Kong auditor to carry out certain audit procedures and not necessarily the engagement of a “component auditor”. In the context of ED-ISA for LCE, we urge the IAASB to clarify whether the above situation would constitute the use of a component auditor, or merely the use of a “borrowed staff” without involving a component auditor.

## 5. Accounting Firms

### BDO International

The situation in the preceding paragraph is most relevant when the component auditor is from the network firm or another network firm. When the specified procedure is to be performed by another auditor in the group auditor’s firm (perhaps someone in a different office), we think that such an auditor could be a member of the group engagement team and would not be considered a component auditor. The guidance should recognize that firms now operate virtually so that geographical divisions between offices in a firm are less important. It is now common for engagement team members to be located in different offices. Therefore, using an auditor from a different office to perform specified procedures on a component does not make them a component auditor as long as they are operating as an engagement team member.

Similarly, if the group auditor contracts with an auditor from another firm or service provider to perform specified procedures on a component, and the contracted auditor will be directed and supervised by the group auditor, we believe that contracted auditor could still be an engagement team member and not be considered a component auditor.

In conclusion, if further guidance could be provided on when the auditor performing specified procedures on a component is a component auditor versus an engagement team member, that may address some of the concerns surrounding the exemption to the prohibition.

### Ernst & Young Global Limited

Additionally, in our view, the limited circumstances (where physical presence is required) presented in the ED-ISA for LCE Part 10 for the use of component auditors does not appear to substantiate the use of component auditors as defined by ISA 600 (Revised). Rather, the situation described in ED-ISA for LCE Part 10 is the inclusion of additional members on the engagement team as allowed under ISA 220 (Revised). Therefore, if the prohibition of using component auditors is not removed altogether, we suggest removing this carveout from ED-ISA for LCE Part 10 as we don’t believe the inclusion of an auditor for the sole purpose of performing a physical inventory or fixed asset observation constitutes involvement of a component auditor.

If the proposed prohibition in ED-ISA for LCE Part 10 on group audits where component auditors are involved remains in the ED-ISA for LCE Part 10, we believe the carve out for the “limited circumstances where a physical presence is needed” should be removed from the requirement. We believe that the example of performing audit procedures in another physical location as

described in ED-ISA for LCE Part 10 includes situations that do not necessarily involve component auditors. Paragraph A1 of ISA 220 (Revised) and Paragraph 3 of ISA 600 (Revised) indicate that ISA 600 (Revised) “may be useful” when the engagement team uses individuals from another firm and provides examples of attending a physical inventory count or inspecting property, plant and equipment. Additionally, Paragraph A17 of ISA 220 (Revised) creates the distinction between a component auditor and attendance at a physical inventory count or inspecting a physical fixed asset at a remote location. This distinction in both ISAs indicates that a “location” that is subject to a physical inspection should not automatically fall into the definition of a “component” and that an individual from another firm performing audit procedures at these locations is included as a member of the engagement team, but not in the capacity of a component auditor. We believe this distinction is important because the individuals performing physical counts or asset verifications are performing procedures as instructed through direct supervision and review, rather than a component auditor who is typically involved in risk assessment procedures and designing and performing procedures responsive to the assessed risks for the purpose of a group audit.

As a result, we recommend that the IAASB remove the carve out for the “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)” from the requirement at Paragraph A1(d)(ii) and instead include guidance in the Essential Explanatory Material (EEM) based on the content in ISA 220 (Revised) and ISA 600 (Revised). The guidance in the EEM should explain that involving individuals from another firm to attend a physical inventory count or inspect property, plant and equipment does not automatically result in these individuals meeting the definition of component auditors, although they are members of the engagement team because they are performing audit procedures.

## MNP LLP

In addition, the IAASB should consider clarifying the definition of component auditor directly within the EEM including consideration of remote work arrangements.

The Authority provides examples of where physical presence is required. However, we believe that there are other circumstances where the use of component auditors is not an indicator of complexity. As an example, Canada has two official languages. A component auditor fluent in another language may be beneficial to reduce translation costs, improve client service or manage the confirmation process and follow-up procedures with customers or suppliers. Component auditors may also be helpful for supplementary skillsets such as testing discrete controls within an operation or specified procedures. These circumstances do not increase the complexity of the entity.

## SRA (NL)

As a separate issue we note, that the definition of component auditor, is not used logically in the draft text, as also any work at the component level, executed by the auditor, responsible for the group audit, falls under the said definition. We assume that this is not intended by the IAASB.

## 7. Member Bodies and Other Professional Organizations

### Chamber of Auditors of the Czech Republic

Further, we are missing definition of the term “audit work”. It is unclear how to interpret the situations when using audit teams within the same network but employed by the separate audit firm in the component country jurisdiction. Or conversely, using the audit members of the group auditor team to perform the work on the component lead by the audit partner in the component country (again due to licencing requirement).

## ASSIREVI

The proposed EEM in new paragraph A.1 of the ED refers to part 3 of the standard and considers the component auditor as a member of the group engagement team. Thus, it follows that management and supervisory requirements for members of the engagement team established in part 3 are also valid for the component auditor. These requirements appear adequate and sufficient in the circumstances for less complex components that can be equated to less complex entities (especially in the case of foreign commercial companies).

Moreover, neither the EEM in the above paragraph nor the definition of the component auditor in the glossary sufficiently clarify what is meant by the term “component auditor” for the LCE standard.

In fact, the standard does not reiterate, or refer to, paragraph A21 of ISA 600R which provides a definition of a component auditor as:

- a network firm; or
- a firm that is not a network firm; or

- another office within the group auditor's firm.

With this meaning of component auditor, which must necessarily be referred to as it does not seem to be contradicted by or in conflict with the indications of the EEM and the definition in the glossary, the prohibition introduced by paragraph A.1 (d) (ii) of the Authority seems excessive.

## **1. Do you agree with proposed prohibition on the use ISA for LCE for group audits\le. Additional Comments (Does not Tie)\ii. Clarifications or Guidance Needed\In Relation to Physical Presence**

### **4. National Auditing Standard Setters**

#### **Canadian Auditing and Assurance Standards Board**

##### **Overall Comments**

We are pleased with the IAASB's proposal to include audits of group financial statements (group audits) in the scope of the proposed ISA for LCE. Not all group audits exhibit characteristics of complexity. As such, audits of less complex groups should be within the scope of the proposed ISA for LCE.

However, we have significant concerns with the proposed "bright line" exclusion of the use of the proposed ISA for LCE when component auditors are involved. This is because there is significant judgment involved in determining:

whether the individual performing audit procedures on the component is a component auditor or a group auditor; and under what circumstances, other than attending a physical inventory count or inspecting physical assets, the proposed ISA for LCE can be used where physical presence may be needed for a specific audit procedure.

We believe that the proposed prohibition could increase the complexity of the auditor's decision-making process regarding the use of the proposed ISA for LCE. Consequently, we believe the prohibition will considerably limit the application of the proposed ISA for LCE in Canada and will be a significant factor as we assess whether the proposed ISA for LCE meets the needs of Canadians.

As a result, we recommend that the Authority not include a prohibition when component auditors are involved. In our view, the qualitative characteristics set out in the Authority that describe the typical LCE, in addition to the group-specific qualitative characteristics set out in ED-ISA for LCE Part 10, should be adequate for the purpose of determining the appropriate use of the proposed ISA for LCE for group audits.

We further explain these concerns and our recommendation in our response to Question 1 in the Appendix to this letter.

We do not agree with the proposed prohibition. We have significant concerns that the proposed prohibition will make the auditor's consideration of whether the proposed ISA for LCE is appropriate for use more complicated. This is because there is no "bright line" criteria or guidance to assist the auditor's judgment in determining:

- whether the individual performing audit procedures on the component is a component auditor or a group auditor; and
- under what circumstances, other than attending a physical inventory count or inspecting physical assets, the proposed ISA for LCE can be used where physical presence may be needed for a specific audit procedure.

We are concerned that the judgment required in (a) and (b) above may have unintended consequences, such as the following:

- The firm's structure would have a greater impact on whether the auditor could use the proposed ISA for LCE than the complexity of the entity itself. For example, smaller firms have fewer resources than larger firms and may be more likely to be excluded from the proposed ISA for LCE due to the need to outsource resources. The prohibition may result in disproportionately scoping out smaller firms from using the proposed ISA for LCE.
- There may be inconsistent application of the proposed ISA for LCE in practice, as practitioners may arrive at differing conclusions.
- The auditor may be inclined to not use the proposed ISA for LCE, as practice inspectors may challenge the applicability of the Authority in a group audit.
- The auditor's decision to use component auditors may be driven by whether the auditor wishes to use the proposed ISA for LCE instead of the ISAs. As a result, auditors may avoid involving component auditors when it would otherwise be beneficial.

#### Judgment in Determining Other Circumstances where a Component Auditor's Physical Presence May Be Needed

The proposed Authority permits the use of proposed ISA for LCE in limited circumstances where the physical presence of a component auditor is needed for a specific audit procedure in a group audit, such as, attending an inventory count or inspection of physical assets. However, it is unclear to us whether the limited exception can be applied to circumstances other than those indicated as examples.

Our Advisory Group identified additional circumstances where a physical presence at the component may be needed, such as when:

- a local auditor is needed to physically inspect documentation in a foreign language;



- the internet service in remote locations does not allow for documents to be digitized and transmitted electronically;
- the group auditor determines that there is an issue at a component and needs an auditor to meet in person with the client;
- an audit procedure requires verifying whether employees on the payroll work at the component and such verification needs to be observed; or
- a walkthrough needs to be performed and documented on certain controls, whether automated or manual, to confirm that they are being followed.

## 5. Accounting Firms

### PriceWaterhouseCoopers

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.

## 7. Member Bodies and Other Professional Organizations

### Institute of Singapore Chartered Accountants (ISCA)

The descriptor "circumstances where physical presence is required" may be open to varying interpretation. In certain jurisdictions, it may be necessary for the group auditor to engage a component auditor to perform the audit of the component due to restricted access to information imposed by local laws and regulations. Such situations may be interpreted to fall within the scope of "circumstances where physical presence is required", which we believe is not the IAASB's intention. If this descriptor is included, more guidance should be provided to clearly explain the kind of situations to which this descriptor will apply.

### 1. Do you agree with proposed prohibition on the use ISA for LCE for group audits\le. Additional Comments (Does not Tie)\lii. Clarifications or Guidance Needed\Other

### 3. Regulators and Audit Oversight Authorities

#### Committee of European Auditing Oversight Bodies (CEAOB)

Specific prohibitions

Paragraph A.1.(d) should state that the ISA for LCE shall not be used for the audit of group financial statements if prohibited by the national standard setter, as set out in paragraph 18 of the explanatory memorandum.

It should also be made clear that any group audit involving public interest entities and entities under prudential regulators' supervision should be out of the ISA for LCE's scope.

#### Independent Regulatory Board for Auditors – South Africa (IRBA)

Additionally, paragraph 3 of ISA 600 (Revised) does not only refer to the use of another auditor for the purposes of attending a physical inventory count or inspecting physical assets, but also includes the performance of audit procedures at a shared service centre. We therefore suggest that guidance be provided to clarify whether performing audit procedures at a shared service centre would be included in the scope of the proposed ISA for LCE -Group Audits, i.e. would qualify for the exemption.

Likewise, we suggest that clarity be provided as to whether entities with, for example, investments in associates, joint ventures and joint operations would be included in the scope of the proposed ISA for LCE – Group Audits.

#### Irish Auditing and Accounting Supervisory Authority (IAASA)

Proposed Additions to the Authority for Group Audits

Specific prohibitions

Paragraph A.1.(d) should state that the ISA for LCE shall not be used for the audit of group financial statements if prohibited by the national standard setter, as set out in paragraph 18 of the explanatory memorandum. It should also be made clear that any group audit involving public interest entities and entities under prudential regulators' supervision should be out of scope.

#### 4. National Auditing Standard Setters

##### Malaysian Institute of Accountants - Auditing and Assurance Standards Board (MIA)

It is critical that the Board also addresses the question of the standards that may be applied in respect of the audit of components of a group and how that may impact a group audit required to be conducted in accordance with the ISAs. For example, if a component entity is considered to be an LCE for purposes of a local statutory audit and the auditor plans to conduct that audit in accordance with the ISA for LCE, guidance will be required as to whether the evidence obtained from that audit can meet the group auditor's purposes, if the group auditor is required to assert in their report on the group financial statements that the audit was conducted in accordance with the "full" ISAs.

We are still unconvinced regarding the reason for the need of having a differentiated group audit requirement/scope when the IAASB is of the view that the LCE standard should be conceptually the same with the full ISAs.

#### 7. Member Bodies and Other Professional Organizations

##### Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA)

Our stakeholders also questioned whether there is a need for guidance where a parent company auditor uses full ISAs, but the component auditor uses ISA for LCE for their audit for statutory purposes. Some of the concerns raised included whether the parent auditor would need to request additional procedures to ensure full ISA compliance and would additional wording be required in the group audit report.

##### South African Institute of Chartered Accountants (SAICA)

Equity accounted investments:

We are of the view that clarity should be provided whether entities with investments in associates and joint ventures (or even joint operations) would be included in the scope of the LCE standard or not.

The proposed standard is silent when it comes to components that are not subsidiaries. If these equity accounted investments are considered to be included within the LCE scope, more guidance would also be required in relation to the determination of component performance materiality in these instances (similar to available guidance in ISA 600 Revised par. A119).

#### 1. Do you agree with proposed prohibition on the use ISA for LCE for group audits\e. Additional Comments (Does not Tie)\iii. Comments on Wording of Authority

#### 5. Accounting Firms

##### MNP LLP

Furthermore, the Authority currently prohibit the proposed ISA for LCE for group audits where any of the group's individual entities or business units meet the criteria as described in paragraph A.1. (b) or A.1. (c). As some small and non-complex not-for-profit may have public interest, potential group audits of LCE may be excluded from the ISA for LCE. IAASB should consider modifying this prohibition to specify that the ISA for LCE shall not be used if the audit is an audit of group financial statements (group audit) and any of the group's significant individual entities or business units meet the criteria as described in paragraph A.1. (b) or A.1. (c). As part of Part 10, the group auditor shall establish the scope, timing and direction of the group audit. Therefore, the auditor may decide to perform limited audit work for some of the entities and therefore prohibitions should not be applied.

#### 1. Do you agree with proposed prohibition on the use ISA for LCE for group audits\e. Additional Comments (Does not Tie)\iiii. Other Suggestions

#### 7. Member Bodies and Other Professional Organizations

##### International Federation of Accountants' Small and Medium Practices Advisory Groups (SMPAG)

Should the IAASB continue with the proposed prohibition, we strongly encourage the Board to initiate an early post-implementation review, which should focus on what impact/ effect the current group audit scope has had on the overall application of the ISA for LCEs.

##### Nordic Federation of Public Accountants (NRF)

Given the importance but also the challenges related to the design of the group audit scope we encourage the IAASB, once the standard has been approved, to closely monitor its overall adoption. In particular, and especially if the proposed scope will be included in the approved LCE standard, we strongly encourage an early post-implementation review which should focus on understanding how the scope regarding group audits affects the overall use of the standard.

## **2. Do you agree with proposed group-specific qualitative characteristics to describe the scope of group audits?**

**a. Agree**

### **4. National Auditing Standard Setters**

#### **Botswana Accountancy Oversight Authority (BAOA)**

Yes, we agree with the proposal. This will remove any judgement needed to determine which group audits fall within the scope of the proposed ISA for LCE.

### **5. Accounting Firms**

#### **PriceWaterhouseCoopers**

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.

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.

### **SRA (NL)**

We agree with the proposed group-specific qualitative characteristics.

### **6. Public Sector Organizations**

#### **Office of the Auditor General of Alberta**

We agree that "Group structure and activities," "Access to information or people" and "Consolidation process" are important qualitative characteristics to be considered when determining to use ISA for LCE or ISA for More Complex Entities.

### **7. Member Bodies and Other Professional Organizations**

#### **Botswana Institute of Chartered Accountants (BICA)**

Response:

We 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 as presented in paragraph A.3.

#### **CPA Australia**

We agree. We are of the view that the additional characteristics to describe the scope of group audits are appropriate.

#### **European Federation of Accountants and Auditors (EFAA) (2)**

We agree.

#### **Korean Institute of Certified Public Accountants (KICPA)**

We agree with the proposals. The group-specific qualitative characteristics are fully and appropriately captured in the proposed ISA for LCE.

#### **Malta Institute of Accountants**

Deemed appropriate.

## **2. Do you agree with proposed group-specific qualitative characteristics to describe the scope of group audits\b. Agree with Comments\b-1. General Comments**

### **3. Regulators and Audit Oversight Authorities**

#### **Independent Regulatory Board for Auditors – South Africa (IRBA)**

We support the inclusion of group-specific qualitative characteristics to describe the scope of group audits, for which the future LCE standard is designed. Our comments on each qualitative characteristic are detailed below.

### **4. National Auditing Standard Setters**

#### **Austrian Chamber of Tax Advisors and Public Accountants (KSW)**

Clear Criteria are necessary in order to avoid unacceptable risks to audit quality, especially that the LCE standard is inconsistently applied in similar fact patterns. Therefore, we basically agree with the proposed group-specific qualitative characteristics.

#### **Canadian Auditing and Assurance Standards Board**

Yes – we agree with the proposed group-specific qualitative characteristics in the proposed Authority but suggest an enhancement to increase clarity.

#### **Compagnie Nationale des Commissaires aux Comptes (CNCC) and Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)**

Yes, we agree with the group specific qualitative characteristics in A3.

### **5. Accounting Firms**

#### **Deloitte LLP**

We agree with the proposed group-specific qualitative characteristics. However, we have the following additional comments:

We recommend describing the qualitative characteristics (including the lead-in wording to the table of characteristics) by focusing on characteristics of the group entity which may make the entity less complex, as opposed to characteristics of the audit (for example, “group management will be able to provide the engagement team with access to information and unrestricted access to persons within the group” could be changed to “group management has control over the group and components such that it has access to information and unrestricted access to persons within the group”). This approach (focusing on the entity and not the audit) is consistent with how the proposed ISA for LCE standard is constructed.

We believe qualitative characteristics should be factors to consider and not applied as bright-line tests. Any examples included in the bullets should be considered as directional examples and not prescriptive material. We encourage the IAASB to emphasize this point in communications when publishing the final standard and developing related implementation guidance.

#### **Ernst & Young Global Limited**

We agree that qualitative characteristics should be used to determine whether a group audit can be performed using the ED-ISA for LCE. However, we also believe that the additional characteristics relevant for group audits should be considered in combination to determine if an entity meets the criteria for a group audit under the ED-ISA for LCE. As a result, we recommend that the IAASB include EEM to clarify that the qualitative characteristics of a group audit should be considered individually and in combination and that no single qualitative characteristic is sufficient by itself to support the adoption of the ED-ISA for LCE. For example, if the group has only five physical locations, but each is in its own jurisdiction and the entity does not have centralized activities or common controls, this may be a sign of complexity because of the group structure and activities.

Overall, we believe there should be more relevant, comprehensive examples in the EEM of the Authority paragraph A.1 for situations where group audits would be considered less complex. In our view, the current example is insufficient to illustrate a less complex group audit and there should be comprehensive, detailed examples, with qualitative considerations, of what makes an entity less complex and what would increase complexity (e.g., operating in more jurisdictions increases complexity due to differing laws and regulations, language differences, access to information, differing country practices, decentralization, complexity of consolidation process and group oversight).

## KPMG IFRG Limited

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 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.

## PKF International

Response:

We agree that there should be additional group-specific qualitative characteristics. However, we would propose that the IAASB considers the following matters:

“Shall” versus “are to be Considered”

In our opinion, the mixed use of the terms, “shall” and “are to be considered” may lead to inconsistency in application of the qualitative characteristics. For example, A.3 states, “For the purpose of group audits, these considerations shall apply to both the group and each of its individual entities and business units. The “Additional Considerations Relevant for Group Audits” uses the terminology, “are to be considered”.

We would suggest that the format for presenting such characteristics should be consistent with the manner in which the qualitative considerations relevant to both individual entities and groups has been presented (i.e. “it would be inappropriate for an audit of the financial statements of the entity to be undertaken using the ISA for LCE if the entity/group exhibits the following...”).

## 7. Member Bodies and Other Professional Organizations

### ASSIREVI

We agree that qualitative characteristics should be considered in order to define group audits for which the proposed LCE standard is designed to be used.

However:

we have concerns that a single qualitative characteristic would not be sufficient to identify group audits to which the proposed LCE standard should be applied. Therefore, the LCE standard should clarify that the additional qualitative characteristics must be considered in combination among them;

### Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA)

We largely agree with the proposed group-specific qualitative characteristics, however it needs to be made clear that they are guidance and that ultimately determination of whether the group is less complex is a matter of professional judgement by the auditor. This also applies to the use of quantitative characteristics in A3. As the standard is focused on the complexity of the entity, rather than the size of the entity, it needs to be clear that any suggested quantitative thresholds are guidance only.

### CPA Ireland

CPA Ireland agrees with the proposed group-specific qualitative characteristics to describe the scope of group audits.

It is considered that at a jurisdictional level to aid consistency of approach by auditors and regulators, it may be necessary to apply numerical indicators or size criteria in line with national legislation.



## Institute of Chartered Accountants of Scotland (ICAS)

We are supportive of the IAASB's view that the qualitative characteristics of a group are broadly the same as those of an individual entity and therefore a group as a whole and each of its individual entities and business units should meet the qualitative characteristics of an LCE that is not a group. We also accept that, as the IAASB is proposing, there is a need for additional group specific qualitative characteristics and are broadly supportive of these.

## Institute of Singapore Chartered Accountants (ISCA)

We agree with the proposed group-specific qualitative characteristics, which generally describes characteristics of a less complex group structure. However, the standard should include a reminder for practitioners to exercise their professional judgment in the evaluation of whether the standard is applicable, as there may be circumstances specific to a group that may not be captured in the qualitative characteristics described under the Authority of the standard. For example, while "group entities or business units that are limited to few jurisdictions" may be characteristic of a less complex structure in most circumstances, it may not be the case if one or more of the jurisdictions in question is of high risk.

## Instituto de Auditoria Independente do Brasil - Ibracon

We agree with the IAASB's position that the qualitative characteristics of a "less complex group" should be aligned with those of a single entity. Moreover, we support the proposal for additional qualitative characteristics in item A3 of the revised Authority.

## Instituto Mexicano de Contadores Públicos (IMCP)

Yes, we agree with the inclusion of the proposed qualitative characteristics related to groups audits in Section A.3. related to a) Group structure and activities, b) Access to information and people and c) Consolidation process.

The consideration of the issuance of guidance in applying these qualitative characteristics that allow an objective interpretation of such will be recommended, as these may, under certain circumstances, lead to subjectivity.

## National Institute of Public Accountants of Colombia (INCP)

We partially agree. But, while the proposed qualitative characteristics are consistent and help define whether a group is less complex, we believe that all criteria need to be defined more accurately and should include the option of performing an analysis of all the characteristics of the group as a whole to assess its complexity. For instance, we believe that it is worth clarifying that any individual qualitative characteristic may not be enough by itself to determine whether or not the proposed standard is applicable to the circumstances of the group. Furthermore, for the purposes of determining the appropriate use of the proposed standard, we deem it important to consider that the list of qualitative characteristics presented should not be comprehensive or aimed at being absolute, since other issues may be taken into account under some circumstances.

## Nordic Federation of Public Accountants (NRF)

Paragraph A3 is intended to provide factors that indicate that the group might be less complex. However, we wonder if the way the paragraph is drafted, i.e., "these considerations shall apply" without including any reference to the use of professional judgement, might lead to a too literal interpretation where the intended exemplary objective risks getting lost.

## 2. Do you agree with proposed group-specific qualitative characteristics to describe the scope of group audits?

### b. Agree with Comments

## 2. Comments on Specific Characteristics

### i. Group Structure and Activities

## 3. Regulators and Audit Oversight Authorities

## Committee of European Auditing Oversight Bodies (CEAOB)

### Qualitative characteristics

We are concerned that the examples of less complex groups in the ED may lead to inappropriate application of the standard. In particular, there needs to be further prohibition or guidance provided regarding application of the ISA for LCE where a group has operations in more than one jurisdiction. Differences in legislation, tax requirements, language, currency and customs as well as the remote location of personnel and accounting records, among other factors, can all lead to significant complexity for the entity and its operations.

Further, we question whether a group with five entities/business units operating in three jurisdictions is likely to be "less complex". In our view, the number of entities and number of jurisdictions in which a group operates need to be considered together when assessing whether use of the ISA for LCE is permitted and appropriate.

## Independent Regulatory Board for Auditors – South Africa (IRBA)

### Group Structure and Activities

Restricting the use of the future LCE standard to groups with only, for example, five business units or less is not always a fair reflection of a less complex group, nor does it address the risk of complexity. Groups may consist of more than 5 entities or business units; and based on their activities, centralised processing and the simplicity of the consolidation process, they could still be defined as less complex entities. As such groups with more than five business units or structures may also be included in the scope of group audits for which the future LCE standard is designed for. This process involves choosing an appropriate number or threshold, and whatever number is chosen will have advantages and disadvantages. Hence we understand the predicament the IAASB faces in determining a threshold. Therefore, we do not support the characteristic that a group with more than 5 business units or structures is always not classified as an LCE and suggest that it be deleted. We also do not support any numerical threshold for this characteristic.

We suggest that the consideration for the centralised processing of accounting records be included as one of the qualitative characteristics, for a group to meet the application requirements of the future LCE standard. We think that any one of the current three characteristics could be expanded to accommodate this.

### Jurisdictions

Including group entities or business units in different jurisdictions, even if limiting it to three or less jurisdictions, adds to complexity.

Further, group structures within different jurisdictions may lead to foreign currency differences that could make the translation and consolidation process more complex, and should therefore be excluded from the future LCE standard.

We suggest that a “jurisdictional boundary” should form part of the relevant criteria, such as when the group audit is conducted entirely within one jurisdiction or established geographical region.

## Irish Auditing and Accounting Supervisory Authority (IAASA)

### Qualitative characteristics

The examples of less complex groups in the ED may lead to inappropriate application of the standard. In particular, there needs to be further guidance provided regarding application of the ISA for LCE where a group has operations in several jurisdictions.

Differences in legislation, tax requirements, language, currency and customs as well as the remote location of personnel and accounting records, among other factors, can all lead to significant complexity for the entity and its operations.

Further, we question whether a group with five entities/business units operating in three jurisdictions is likely to be “less complex”.

The number of entities and number of jurisdictions in which a group operates need to be considered together when assessing whether use of the ISA for LCE is permitted and appropriate.

## 4. National Auditing Standard Setters

### American Institute of Certified Public Accountants (AICPA)

Response 2: We have no objection to the proposed group-specific qualitative characteristics in the Authority to describe the scope of group audits for which the proposed ISA for LCE is designed to be used. However, we believe that an explicit statement should be included that clarifies that the numbers provided (such as the “e.g., 5 or less” and “e.g., 3 or less” in the Group Structure and Activities section) are intended as examples that may be relevant considerations in complying with the Authority Document in conjunction with qualitative considerations but may vary according to other factors applicable to local jurisdictions. Further, it would be helpful if the examples were presented as a range to clarify that the consideration may vary.

### Austrian Chamber of Tax Advisors and Public Accountants (KSW)

However, in the European union with an open market for services, goods and finance setting up entities in several (i.e., more than three) member states are rather common also for less complex groups. The numbers of 5 and 3 are arbitrary. It seems that those numbers are seen as the upper end of a possible range (e.g., 5 or less), if so, it should be explained.

### Canadian Auditing and Assurance Standards Board

The qualitative characteristic under the category of “Group Structure and Activities” describes a less complex group structure as “group entities or business units that are limited to a few jurisdictions (e.g., 3 or less)”.

In our view, the term “few” and the example of “3 or less” do not necessarily reflect what makes an LCE that includes components located in other jurisdictions complex. Leveraging from paragraph A35 of ISA 600 (Revised), we recommend that the IAASB amend this characteristic as follows:

Group entities or business units are limited to few jurisdictions operate in jurisdictions with similar culture, language, laws or regulations (e.g., 3 or less).

### Compagnie Nationale des Commissaires aux Comptes (CNCC) and Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)

However, we believe that the indicative numbers of entities within the group (e.g., 5 or less) or the indicative number of jurisdictions (e.g., 3 or less) should be removed from the standard.

Numbers in standards are very rare, if not inexistent, and they could be taken as being imperative. There is therefore a risk that they be considered a rule instead of an illustration. The word “few” in English is sufficiently clear to prevent misuse of the standard.

### **Institut der Wirtschaftsprüfer in Deutschland e.V.(IDW)**

We welcome the proposed incorporation of a separate part within the ISA for LCE to deal with audits of simple group financial statements. However, we believe that the proposed authority on when the ISA for LCE may be used for group audits is too restrictive by not permitting the use of component auditors in general and is too restrictive in the nature of the qualitative characteristics relevant to group audits. We also note that proposed paragraph A3 is too restrictive in the application of the nature of the finance function to the group.

We believe that if the audit of a group is simple, even with the use of component auditors and when the group has a decentralized finance function across the entities and business units, the application of the ISA for LCE ought to be permitted. Furthermore, the additional characteristics for group audits need to be more focused on complexity arising from having more than several, rather than having just a few, entities and business units.

We do not agree with all of 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 particular, we take issue with the following:

With respect to the Group Structure and Activities, we believe that the reference to “few” entities (often construed as two to four) and the reference to 5 or less entities to be too restrictive. We suggest that the word “few” be replaced by “not more than several” and that the example of five entities be deleted. The reference to “few” jurisdictions is also too restrictive for a European environment – particularly for Western Europe, where, for example, an entity headquartered in Western Germany could have branches in Switzerland, Luxemburg, the Netherlands, Belgium and France, but yet the branches are, at maximum, only a few hundred kilometers from the head office. Here as well we therefore suggest that the word “few” be replaced with “not more than several” and the example of 3 jurisdictions be deleted.

### **Japanese Institute of Certified Public Accountants (JICPA)**

We agree. We have the following comment.

(Numerical indicators)

Regarding the numerical indicators in the qualitative characteristics of paragraph A.3 (for example, “the group has few entities or business units (e.g., 5 or less)”), although the word “e.g.” is used, it would be appropriate to include an explanation that makes it clearer that these numerical indicators are not absolute or definitive. In this regard, if the Exposure draft is combined with the September 2022 Board meeting paper “20220912-Agenda-Item-5-A-Proposed-Authority,” the beginning of paragraph A.3 will be as follows:

“A3. The following list describes characteristics of a typical LCE for the purpose of determining the appropriate use of the ISA for LCE. The list is not exhaustive nor intended to be absolute, and other relevant matters may also need to be considered. Each of the qualitative characteristics may on its own not be sufficient to determine whether the ISA for LCE is appropriate or not in the circumstances. Therefore, the matters described in the list are intended to be considered both individually and in combination. For the purpose of group audits, these considerations shall apply to both the group and each of its individual entities and business units...”

We believe these statements are important and should be retained in the final version of the ISA for LCE.

### **Public Accountants and Auditors Board Zimbabwe**

PAAB agrees. with the qualitative factors below:

-Group Structure and Activities —a group may be more complex when the number of entities or business units increase or are in a number of jurisdictions.

## **5. Accounting Firms**

### **Baker Tilly International**

It is unhelpful, arbitrary and arguably inappropriate for the Authority to include indicative numbers such as in “...few entities or business units (e.g., five or less)”. Either include numbers as a rule (e.g., shall not be more than five) or preferably they should be removed. Complexity within a jurisdiction is a better indicator of complexity for the group audit than number of jurisdictions. All circumstances should be taken into account when determining complexity.

### **BDO International**

We agree with the proposed group-specific qualitative characteristics, however we have the following suggestions:

## Group Structure and Activities

We agree with the proposed group-specific qualitative characteristics for Group Structure and Activities, but we disagree with the inclusion of limits on the number of entities or business units (e.g., 5 or less) and the number of jurisdictions (e.g., 3 or less) in the requirements of the standard. We typically prefer that there are not hard lines drawn on limits such as these so that professional judgment can be applied, but for the sake of consistency of application, we think the proposed limits are reasonable and should rather be included in an essential explanatory material (EEM) paragraph as a guideline. In addition, we would suggest including 'typically' before these limits (e.g., typically 5 or less entities / typically 3 or less jurisdictions). This would allow an engagement team to apply their professional judgment when they want to use the proposed ISA for LCE for group audits in circumstances when the group structure and activities marginally exceed these limits. They obviously would need to document their rationale for wanting to exceed the stated limits and they would be responsible for the quality of their rationale.

## Deloitte LLP

Reconsider whether the below qualitative characteristic is indicative of a LCE. The existence of components in a different jurisdiction (even one) generally increases the complexity of a group entity, as well as the likelihood that component auditors need to be involved in the audit. In addition, including "3 or less" may become a defacto bright line, which may not be appropriate in all jurisdictions. It may be better suited for jurisdictions, as part of adopting the ISA for LCE, to include additional guidance as to what "few jurisdictions" would mean in their jurisdiction.

"Group entities or business units are limited to few jurisdictions (e.g., 3 or less)"

## Ernst & Young Global Limited

### Group Structure and Activities

The group structure and activities section indicates that the group entities or business units should be limited to few jurisdictions (e.g., 3 or less). However, in our view, the number of jurisdictions involved seems less relevant than the similarity (e.g., applicable regulations, additional requirements for audits, etc.) of those jurisdictions or the complexity of the jurisdictions involved. However, we do agree that as the number of jurisdictions increases, different risks arise and the level of consolidation and group oversight needs to increase, which increases complexity. In our view, the ED-ISA for LCE should only be applicable to group audits that have business units that operate in the same jurisdiction or when the jurisdictions involved (which are expected to be few in number) have similar characteristics such that there is not an effect on the complexity of the group audit. If the level of oversight has to be increased because of a number of different jurisdictions, this is a sign of complexity and the ED-ISA for LCE would likely not be applicable.

The group structure and activities section indicates that the group should have few entities or business units (e.g., 5 or less). We believe that the ED-ISA for LCE should emphasize that the numerical threshold on the number of entities or business units are just examples and that the number of entities or business units should be considered in combination with the other qualitative characteristics in determining complexity of a group. We believe that the number of entities or business units within a group does not drive complexity in and of itself and this should not be a deciding factor of complexity. We believe that the group structure and activities section should indicate that it is important to understand significant changes in an organizational structure (e.g., acquisitions that occurred) because changes could increase the complexity in ownership, IT systems, applicable regulations, etc. Therefore, it is important to understand the nature and timing of these changes prior to executing an audit under the ED-ISA for LCE. We suggest that EEM be added to the Authority of the ED-ISA for LCE to consider changes in complexity when determining the applicability of the ED-ISA for LCE. This guidance should describe situations when a practitioner would be required to transition to the full suite of ISAs because the Authority of the ED-ISA for LCE may no longer be met in the current year. It is our view that this transitional guidance needs to cover both transitioning from the ED-ISA for LCE to the full suite of ISAs during the audit and transitioning between the standards from audit period to audit period.

## Grant Thornton International Limited

We also have concerns about certain qualitative characteristics used to describe the group audits for which the proposed ISA for LCE may be used. Particularly, we are concerned that the inclusion of example quantitative thresholds within those qualitative characteristics may be interpreted by users of the ISA for LCE as 'bright line' thresholds that cannot be exceeded. Further, we are of the view that the prohibition of use of the ISA for LCE when the group consolidation process includes sub-consolidations needs further clarification in the proposed standard as to what is considered a sub-consolidation. As elaborated in our response to question 3, there may be different interpretations among auditors and, depending on the appropriate interpretation, different views about whether the prohibition is appropriate.

We disagree with certain of the group-specific qualitative characteristics to describe the scope of group audits for which the ISA for LCE is designed to be used. Our concerns are elaborated below:

#### Group structure and activities

We have concerns around the introduction of quantitative examples in relation to the number of entities and jurisdictions considered appropriate before a group may become complex and use of the standard would not be appropriate for the following reasons:

- When numerical thresholds are included in standards, even when they are stated as examples, they are often interpreted by some users as being required thresholds. This may result in the following unintended consequences:
  - The ISA for LCE is not used to perform the audit of the group financial statements when it would be appropriate to do so.
  - Where the ISA for LCE is used:
    - Unnecessary documentation explaining why it is appropriate to use the ISA for LCE when one of the thresholds is exceeded.
    - Challenges from regulators that the audit has been conducted using an inappropriate auditing standard because one of the thresholds is exceeded.

These factors increase a firm's risk of using the ISA for LCE and also decreases its attractiveness.

- The number of entities within a group does not drive complexity in and of itself. For example, groups may be comprised of a number of branches in excess of 5, which do not add complexity to the group. This may result in an incorrect conclusion being drawn about the complexity as the number of business units exceeds the example provided in the standard.

If the IAASB retains numerical thresholds in the standard, we recommend that:

- The ISA for LCE clearly provides for the ability for local standard setters to provide examples of the quantitative thresholds that make the group complex in their local jurisdictions or to otherwise eliminate such examples.
- Essential explanatory material is added that:
  - Clarifies that the quantitative threshold included in the proposed Authority is an example to assist auditors in determining whether it is appropriate to perform the audit using the ISA for LCE and that a higher or lower number of entities may be appropriate in the circumstances.
  - Clarifies that the quantitative thresholds are used in combination with other complexity factors when making the determination of whether it is appropriate to use the ISA for LCE and provides guidance on how they may be used, including examples of the complexity factors to consider.
  - Clarifies that additional audit documentation would not be necessary to support instances of group audits that exceed the quantitative threshold examples.

## KPMG IFRG Limited

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;

## Mazars

The examples in the Authority include groups with "...few entities or business units (e.g., 5 or less)," and where "group entities or business units are limited to few jurisdictions (e.g., 3 or less)."

We are concerned about the risk that the examples (described as "characteristics" in Part A3 of the Authority) may be interpreted as rules where we may end up in practice having to rebut "assumptions" that exceeding these numbers is evidence of complexity and taking us out of the LCE standard. Although we are cognisant of the risks of "too much judgment" in the proposed Authority, we don't interpret the proposals or the Explanatory Memorandum to mean that the exercise of (professional) judgment is prohibited. Nonetheless, we recommend that the intended scope of the auditor's exercise of judgment in the context of the Authority is clarified. In doing so, it may be worth:

Explaining the applicability of the auditor's exercise of judgment in the context of the Authority, noting that it is presumably excluded from the scope of "professional judgment" in an audit of financial statements in accordance with the proposed ISA for LCE. In other words, clarity is required about whether the provisions in the Authority are subject to auditor judgment, and if so, whether it's deemed to mean the same as "professional judgment" in accordance with ISA 200?



Considering replacing, or explaining, the use of the term “qualitative characteristics” (as presented in A.3. of ED–LCE–Groups), e.g., intended to be used as “indicators” of groups that are included in the scope of the ISA for LCE, subject to the auditor’s exercise of professional judgment.

Adding, for example, that a group with highly homogenous operations across more than 3 jurisdictions/5 business units may be less complex based on the auditor’s exercise of professional judgment (e.g., group of small hotels in a single jurisdiction, or property rentals where each property is set up as a separate entity).

## MNP LLP

Generally, we support the proposed group-specific qualitative characteristics as described in the Authority of the ISA for LCE. However, we believe that the proposed characteristics, as currently written, could lead to inconsistencies in application from the stakeholders, creating confusion in the practice on when ISA for LCE can or can not be used. We suggest the following clarifications to promote quality and consistency across auditors.

### Group Structure and Activities

The description refers to few entities or business units. However, the number of legal entities should not matter in the decision, and the auditor should rather understand the number of components the group has. For example, the group may have multiple legal entities, but a single or small number of components. We suggest that the description be reworded to refer to number of components rather than legal entities.

## PKF International

### Group Structure and Activities

The “Group Structure and Activities” suggests that the proposed ISA for LCE would be inappropriate for a group that exhibits more than 5 entities/business units or which operates in more than 3 jurisdictions. In our opinion, the focus on numerical indicators is contrary to the objective of the scope of the proposed ISA for LCE, whereby the focus is on “complexity” rather than “size”.

We would propose that the “Qualitative Characteristics” should focus on the complex matters and circumstances within each group entity, their jurisdictions and within the consolidation process, rather than a scope based on how many entities/business units or jurisdictions are within a group.

For example, there may be groups with 6 or more entities across various jurisdictions that have very little activity, are non-complex, low risk and have a simple consolidation process. We would challenge why such a group should be prohibited from the scope of the proposed standard and question whether the focus should rather be directed to whether there are any complex matters or circumstances within the entities or the various jurisdictions and the complexity of the consolidation process.

## Price Bailey LLP

The proposed examples provided are too restrictive and, in practice, regulators are likely to interpret them as requirements from which practitioners would then need to justify a departure.

We do not believe the number of entities is something that should be restrictive. There are many groups which will have a high number of group entities whilst remaining less complex, the group size being purely for risk management purposes (eg. property companies with separate entities for different developments). Neither the entities nor the consolidation will necessarily be complex.

In addition, many less complex groups may have a significant number of dormant entities for which an audit is still required due to local regulations.

Similarly, an entity operating across more than 3 jurisdictions might not necessarily be more complex, particularly if those jurisdictions allow freedom in choosing one’s reporting framework and may in fact have other similarities to neighbouring jurisdictions (eg. the Channel Islands).

One way to address this it would be helpful to consider adding “less complex groups with business operations that display a level of homogeneity may operate in more than 3 jurisdictions or have more than 5 business units”.

## RSM International

Yes, we agree with the qualitative characteristics.

However, we are concerned as to how the references to “e.g. 5 or less” and “e.g. 3 or less”, in Group Structure and Activities, and “For example” in Consolidation Process are to be interpreted because there is a danger that these examples/indicators quickly become rules. It is not unusual for groups to have a number of dormant entities which, together with active subsidiaries, could mean that the group is larger than these indicators. We therefore suggest either removing the “e.g. 5 or less” and “e.g. 3 or less” or clarifying that they do not include dormant entities.

## 6. Public Sector Organizations

### US Government Accountability Office

We do not believe that group audit for LCE is appropriate, but we analyzed the qualitative characteristics to assess whether, if implemented, the characteristics would be sufficient as presented. We do not believe that the identified group-specific qualitative characteristics are sufficient to describe a consistent appropriate scope of group audits for which the proposed ISA for LCEs is designed to be used.

We find the first characteristic related to group structure and activities arbitrary and unable to ensure that the group is not complex. This concern is not alleviated with the consideration of the other group-specific qualitative characteristics or the general characteristics for an LCE.

We suggest modifying the characteristic to better describe the nature and size of entities that could be part of the group and the number of jurisdictions in which the entities are located. This should include an understanding that the group structure and activities include an appropriate mix of number of entities and jurisdictions and not a separate consideration of them.

## 7. Member Bodies and Other Professional Organizations

### Accountancy Europe

Whilst we agree that the qualitative characteristics are helpful, including finite numbers will be overly restrictive in some circumstances. In this regard, we believe the word “few” is self-explanatory and the examples with number of business units and jurisdictions given in parentheses under paragraph A.3 should be removed.

Otherwise, these arbitrary quantitative thresholds should be clearly marked as guiding examples as auditors need to use their professional judgment in considering the qualitative characteristics.

In the European Union (EU), with a single market for goods, services, people and capital, approximately 80% of legislation for corporate governance including accounting, reporting and auditing is harmonised, covering 27 EU or 30 EAA jurisdictions of which many are very small. Setting up entities in several EU member states is thus rather common also for less complex groups. Therefore, it should be clarified that entities with high level of homogeneous activity and control structure, although having numerous business units in many jurisdictions, may still be considered as a less complex group, such as small hotel chains.

## ASSIREVI

we have concerns around the introduction of numerical thresholds in relation to the entities and jurisdictions considered appropriate before a group may become complex, and the use of the standard inappropriate as a result. In our view, the numerical thresholds are just one of the qualitative characteristics to be considered together with others. In particular, we believe that the number of entities within a group does not drive complexity in and of itself. If the IAASB retains numerical thresholds in the standard, we suggest that:

the numerical thresholds are merely an “indication” and are not considered as the limit over which the LCE standard can not be applied, as there could well be situations where many subsidiaries do not add complexity to a group (i.e., pure commercial entities);

the application material should clarify that the threshold is a starting point for consideration to use the LCE standard and that it may still be appropriate to use the LCE standard if there are more business units or jurisdictions than those in the stated thresholds. The application material should clarify that the qualitative characteristics related to group audits should be considered in conjunction between them and no single qualitative characteristic is sufficient by itself to support the adoption of the LCE standard for group audits;

in our view, the number of jurisdictions involved is less relevant than the similarity of those jurisdictions or the individual complexity of the jurisdictions involved. We deem it necessary to explain what characteristics of a jurisdiction are relevant in order to identify a less complex group and we suggest including an EEM paragraph that considers jurisdictions requiring

companies to have an audited set of financial statements as jurisdictions with the same level of complexity, and therefore as a characteristic of a less complex group;

### **Association of Practicing Accountants (APA)**

The proposed examples provided are too restrictive and, in practice, regulators are likely to interpret them as requirements from which practitioners would then need to justify a departure.

We do not believe the number of entities is something that should be restrictive. There are many groups which will have a high number of group entities whilst remaining less complex, the group size being purely for risk management purposes (e.g. property companies separate entities for different developments). Neither the entities nor the consolidation will necessarily be complex.

In addition, many less complex groups may have a significant number of dormant entities for which an audit is still required due to local regulations.

Similarly, an entity operating across more than 3 jurisdictions might not necessarily be more complex, particularly if those jurisdictions allow freedom in choosing what reporting framework to adopt and may in fact have other similarities to neighbouring jurisdictions (eg. the Channel Islands).

One way to address this could include adding “less complex groups with business operations that display a level of homogeneity may operate in more than 3 jurisdictions or have more than 5 business units”.

### **Chamber of Auditors of the Czech Republic**

Yes, except of following two comments.

Firstly, we believe that the quantitative threshold (such as included in definition of group structure and activities) should be clearly indicative and marked only as an example. It should be a matter of auditor’s judgement what number of entities and jurisdictions are indicators of complexity. For example, within EU there are lot of jurisdictions with very similar rules. So, if the subsidiaries are all within EU it may not be a characteristic of complexity.

### **Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA)**

This also applies to the use of quantitative characteristics in A3. As the standard is focused on the complexity of the entity, rather than the size of the entity, it needs to be clear that any suggested quantitative thresholds are guidance only.

#### **Group Structure and Activities**

We agree that the group structure and activities are appropriate qualitative characteristics to describe the scope of group audits for which the proposed ISA for LCE is designed to be used.

### **Chartered Accountants Ireland**

#### **Overall comments**

As stated in our response to the earlier consultation in our view it is essential that group audits are included in the scope of the ED-ISA for LCE. In Ireland, group structures are used extensively by private businesses. A large proportion of these group structures would not fall into the specific classes of entities or exhibit the qualitative characteristics that would prohibit the use of ED-ISA for LCE. Statutory audits are required under legislation in Ireland for all but the smallest of these groups. If the standard when issued does not include group audits in its scope, we expect that this will significantly limit the use of the standard in Ireland.

The current proposals would go some way towards addressing this but we believe that the prohibition on the use of component auditors and the numbers of entities and jurisdictions would impact negatively on the usefulness and therefore adoption of this standard in Ireland.

The qualitative characteristics in paragraph A3 should be clearly marked as examples where the auditor needs to use his or her professional judgment in determining the qualitative characteristics. This is specifically important in terms of the qualitative examples for thresholds related to number of entities or business units and number of jurisdictions. In the European union with

an open market for services, goods and finance setting up entities in several (i.e., more than three) member states are rather common also for less complex groups.

### **EXPERTsuisse**

We do partially 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 view however, the number of entities (e.g. 5) and the number of jurisdictions (e.g. 3) in par. A3 is set too restrictive and, in our view, is set arbitrarily.

### **Federation of Accounting Professions of Thailand (TFAC)**

Yes, we agree. However, under the category of “Group Structure and Activities” in A3, criteria on the relative significance (in term of value to the group) of the activities of the entities or business should be added.

### **Institute of Chartered Accountants in England and Wales (ICAEW)**

The proposed prohibition on the use of the standard except where a physical presence is required, and the qualitative characteristics of non-complex groups as set out in the proposals would, when combined, unnecessarily exclude some very simple groups, because of the restrictive nature of the examples. We suggest that the scope can be widened without compromising audit quality as set out in our answers to questions 1 and 2 below.

We agree with the proposed group-specific qualitative characteristics except as follows.

The examples provided in A.3 Additional Characteristics Relevant for Group Audits include groups with, ‘...few entities or business units (e.g., 5 or less)’, and where ‘...group entities or business units are limited to few jurisdictions (e.g., 3 or less)’. We understand that these are ‘examples within examples’, but practitioners in jurisdictions in which this standard is adopted will be forced in practice to rebut an assumption among audit regulators that more than 5 entities/business units, or more than 3 jurisdictions, are conclusive evidence of complexity.

It would be helpful to add that less complex groups whose business operations display a high level of homogeneity may operate in more than 3 jurisdiction or have more than 5 business units. An example could be provided of groups of small hotels within one jurisdiction, or a parts distributor in one geographical region.

### **Institute of Chartered Accountants of Nigeria**

We 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.

However, the Board should take further step to clarify the meaning of “few entities” and “few jurisdictions” as parts of the descriptions of the group structure and activities characteristics relevant to group audits. There are examples of yardsticks given in these regards e.g. “3 or less”, for few entities and “3 or less”, for few jurisdictions. Are these quantitative criteria to be used in describing the meaning of “few”? This underscores the need for further clarity to enhance understandability and practicality of implementation.

### **Institute of Chartered Accountants of Scotland (ICAS)**

However, we have concerns at the inclusion of specific numbers, albeit as examples, as these may be viewed as setting arbitrary limits to the scope of the proposed standard. Such numbers do not necessarily take account of the specific facts and circumstances as to whether the group in substance should be capable of being categorised as an LCE.

### **Instituto de Auditoria Independente do Brasil - Ibracon**

However, we believe that additional information is required about these characteristics:

Group structure and activities – We recommend emphasizing the nature of the locations in which they operate. For instance, verifying if these locations are based in different jurisdictions that may pose greater risks.

### **Instituto Mexicano de Contadores Públicos (IMCP)**

The confirmation of whether the qualitative numbers in the “Group structure and activities” (for example 5 or less entities or business units, or 3 or less jurisdictions) are mandatory or not is also suggested.

### **International Federation of Accountants’ Small and Medium Practices Advisory Groups (SMPAG)**

We generally agree with the proposed group-specific qualitative characteristics to describe the scope of group audits, but do not support the use of the quantitative thresholds as examples. These are purely arbitrary, and we are concerned that in practice these could be used by regulators as more than examples, which would result in the questioning of practitioners on how they

have justified applying the standard. For example, if the group has 6 business units and is non-complex. We do not believe the numbers are needed, or are globally applicable, if practitioners are making their own principles-based judgment.

### **Nordic Federation of Public Accountants (NRF)**

Given that and considering regional and jurisdictional differences both in terms of the reasons for and the frequency of less complex groups, we do not support including quantitative examples linked to Group Structures and Activities in paragraph A3. For example, in the European Union with its open market for services, goods and finance it is rather common also for less complex groups to set up entities in several (i.e., more than three) member states.

If the IAASB would still like to provide quantitative examples as guidance, we suggest including them in another document, for example in the Supplemental Guidance for the Authority.

### **Pan-African Federation of Accountants (PAFA)**

#### **PAFA Response**

We agree with the proposed group-specific qualitative characteristics to describe the scope of group audits, however, we do not support the characteristic that groups with more than 5 business units or structures is not an LCE as these could still have simple activities and processes. We believe that the use of these quantitative thresholds is arbitrary and may result in more challenges for the auditor having to justify themselves if examples are used as more than examples.

### **South African Institute of Chartered Accountants (SAICA)**

Yes, in principle we agree with providing qualitative characteristics to describe the scope of LCE group audits. We have, however, identified the following concerns with the current proposed qualitative characteristics:

#### **Number of entities:**

We are of the view that the use of the 5 or less entities or business units to define a LCE group in itself, is not a fair reflection of a less complex group. This assessment has to be in conjunction with the other factors to conclude that it is a less complex group audit.

#### **Jurisdictions:**

We are of the view that including more than one jurisdiction can create complexity. Further guidance should be provided in the standard to ensure that the auditor appropriately concludes whether the work in another jurisdiction can be performed by the particular LCE auditor.

For example, registration requirements of the auditor in the specific region; shared service centres or location where accounting records are kept that would make an audit by the same auditor feasible.

### **Wirtschaftsprüferkammer (WPK)**

Yes, we partly 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.

With regard to the relevant additional characteristics the IAASB proposes that the group has few entities or business units (e.g., 5 or less) or that the group entities or business units are limited to few jurisdictions (e.g., 3 or less).

We would prefer a purely qualitative view of the group and its components instead of a strict rules-based approach regarding the number of entities or jurisdictions. A quantitative limitation to a certain number of units or a certain number of jurisdictions does not seem appropriate for the intended purpose. Qualitative observations and findings alone are preferable according to our firm conviction.

For example, a group comprising 5 entities within a comparable cultural area might be auditable in a comparatively simple way. In contrast, a group comprising only 3 entities within a heterogeneous cultural area might be very complicated despite the straightforward number of entities.

Having said that, we prefer the IAASB to pay more attention to the substantive aspects rather than the number of entities or jurisdictions involved.

Overall, we recommend deleting the qualitative characteristics regarding the “Group Structure and Activities” in proposed A.3.



## **2. Do you agree with proposed group-specific qualitative characteristics to describe the scope of group audits\b. Agree with Comments\b-2. Comments on Specific Characteristics\ii. Access to Information or People**

### **3. Regulators and Audit Oversight Authorities**

#### **Independent Regulatory Board for Auditors – South Africa (IRBA)**

Access to Information or People

We are of the view that this characteristic appropriately addresses less complex group structures.

### **4. National Auditing Standard Setters**

#### **Hong Kong Institute of Certified Public Accountants (HKICPA)**

With respect to the proposed group-specific qualitative characteristics, we are concerned with the drafting of “access to information or people” and “consolidation process” set out in the proposed paragraph A.3. We recommend the IAASB to re-consider the drafting so as to enhance the applicability of the proposed standard for group audits.

Access to Information or People

Paragraph 19(b) of ISA 600 (Revised) specifies that as part of the terms of the engagement, the group auditor should obtain the agreement of the group management that the engagement team could request additional information from the group management or component management for the purpose of the group audit.

On Access to Information or People in the proposed Part 10 of the ED, we note that the drafting of paragraph A.3. only refers to the provision of access to information or people by the group management.

Given that component auditors are allowed in limited circumstances, we suggest the IAASB to clarify or re-consider the drafting on whether access to information and people could be provided by the component management in addition to the group management to align with ISA 600 (Revised).

#### **Public Accountants and Auditors Board Zimbabwe**

PAAB agrees. with the qualitative factors below:

Access to Information or People — a group may comprise of multiple entities or business units and therefore it may be more complex for group management to provide access to information or people.

### **5. Accounting Firms**

#### **Baker Tilly International**

The characteristic “Access to Information or People” is not specific to audits of less complex entities and should be removed.

#### **Grant Thornton International Limited**

Access to information or people

We agree with the proposed group-specific qualitative characteristic on access to people and information to describe the group audits for which the ISA for LCE is designed to be used.

#### **KPMG IFRG Limited**

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;

#### **PKF International**

Access to Information or People

As per question 1, we would propose promoting this criteria to be included within the “Specific Prohibitions”. Please refer to our comments in question 1, above.

## **7. Member Bodies and Other Professional Organizations**

## **Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA)**

### **Access to Information or People**

We agree that the group auditor needs to consider whether accessing the information and people within the group will add complexity to the engagement. We understand that, in many group engagements, access to information and people can add complexity, particularly when the numbers of entities, locations or jurisdictions grows or where a group operates in a number of industries or segments. In the case of LCE who meet the requirements of the authority of ISA for LCE, however, that will usually not be the case. For example, in some industries like the shipping industry multiple special purpose vehicle entities may be set-up i.e., to own a ship, however, ultimately the structure may not be complicated.

## **Instituto de Auditoria Independente do Brasil - Ibracon**

Access to information or people – We suggest including examples of circumstances where management may not provide access to information for this characteristic.

## **2. Do you agree with proposed group-specific qualitative characteristics to describe the scope of group audits\b. Agree with Comments\b-2. Comments on Specific Characteristics\liii. Consolidation Process**

### **3. Regulators and Audit Oversight Authorities**

#### **Committee of European Auditing Oversight Bodies (CEAOB)**

In addition, the consolidation process characteristic should specify that all entities in the group apply the same accounting framework and limit the number of currencies involved.

#### **Independent Regulatory Board for Auditors – South Africa (IRBA)**

##### **Consolidation Process**

Where acquisitions or disposals of units within a group occur, this could further complicate the group structure and the consolidation process. It is unclear in the future LCE standard how this is to be dealt with.

Further guidance is needed on whether acquisitions or disposals render a group unable to apply the future LCE standard; and if so, whether transitioning from the ISAs to the future LCE standard would be allowed at a later stage during the audit. Given that the intention is for the future LCE standard to be a standalone standard, transitioning between the standards is probably not appropriate; hence, the future LCE standard needs to provide clearer guidance in this regard.

## **Irish Auditing and Accounting Supervisory Authority (IAASA)**

In addition, the consolidation process characteristics to be considered by the auditor should specify that all entities in the group apply the same accounting framework and limit the number of currencies involved.

### **4. National Auditing Standard Setters**

#### **Hong Kong Institute of Certified Public Accountants (HKICPA)**

##### **Consolidation Process**

In paragraph A.3., one of the examples of a simple consolidation process is that financial information of all entities and business units has been prepared in accordance with the same accounting policies applied to the group financial statements. However, it is common for entities or business units not in the same territory as the holding company to prepare their financial information following local accounting requirements which may be different from the holding company's accounting policies. Adjustments made during the consolidation process for alignment with the group's accounting policies, in many instances, might be straight forward and not necessarily complex. We therefore suggest the IAASB to re-consider the drafting in this regard.

We also recommend the IAASB to clarify whether groups with entities or business units having a different reporting period-end judged to be immaterial or non-substantial (e.g., timing differences of less than a certain threshold; the aggregate quantitative impact due to timing differences is judged to be immaterial) are eligible for the LCE standard in their group audit engagements.

Another example of a simple consolidation process in paragraph A.3. is that there are no sub-consolidations. However, it is common for simple and less complex groups to have one or more than one sub-consolidation, e.g., an ultimate holding company holding an intermediate company, which holds two to three subsidiaries. The example in paragraph A.3 would prohibit less complex group audit engagements with simple, straight forward sub-consolidations to apply the LCE standard. Accordingly, we

suggest the third example under “Consolidation Process” in paragraph A.3. be fine-tuned to “There are no complex sub-consolidations”. In doing so, the IAASB should provide guidance on the context of “not complex”, for example, the number of sub-consolidations and/or consolidation adjustments involved.

## **Institut der Wirtschaftspruefer in Deutschland e.V.(IDW)**

With respect to the Consolidation Process, we believe that the description of what a “simple consolidation process” is, is too restrictive. The reference to the “same” accounting policies is too restrictive because the accounting policies across borders may be similar, but not precisely the same. Adjustments, if material, may be very easy to make. We suggest that the word “same” be replaced with “similar”. Likewise, if the entities or business units have different reporting periods, such differences, if not too great (e.g., a few months), can also be dealt with using simple accounting techniques that are not complex to audit. We also believe that sub-consolidations for small and medium-sized groups are quite common, such as when there is a holding company for tax reasons, but an additional holding company controls a few subsidiaries in another jurisdiction. Such a sub-consolidation is, per se, not necessarily complex. We therefore suggest that the term “complex” be inserted after the word “no” in this case. With our proposed changes, we believe that the qualitative characteristics are focused more on true complexity and are therefore more proportionate for audits of LCEs or less complex groups.

## **Public Accountants and Auditors Board Zimbabwe**

PAAB agrees. with the qualitative factors below:

Consolidation Process —a group may be more complex because of the consolidation process. The above are key in assisting to identify group audits for the correct application of ISA for LCEs.

## **5. Accounting Firms**

### **Baker Tilly International**

The description of the consolidation process is the best indicator of complexity (or lack thereof).

### **BDO International**

Consolidation Process

We appreciate the qualitative characteristics under Consolidation Process. The first 2 bullets, in particular, are important to keep the consolidation process not complex and therefore we agree with including them.

We suggest adding another example to the Consolidation Process characteristics, indicating that when the translation of foreign currency of entities or business units (i.e., components) is required for consolidation purposes, it increases the complexity for the entity in performing the consolidation process, and the group would then be considered complex.

## **Ernst & Young Global Limited**

Consolidation Process

In our view, the existence of sub-consolidations is not considered by itself to add complexity to a group. We believe that further explanation of what the IAASB means when using the term ‘sub-consolidation’ would be helpful. We believe that an EEM paragraph should be added to the Authority to explain when a sub-consolidation adds complexity and when it does not.

## **Grant Thornton International Limited**

Consolidation process

We understand that there are different interpretations of what is meant by ‘sub-consolidation,’ being either:

‘A group within a group’, where it relates to the way the group is managed, such as having various levels of components where components may also prepare group financial statements (subgroups within a larger group); or

Just a combination of branches or entities that work together and operate in similar markets.

If the first example is what is intended by including sub-consolidations as a gating factor, we agree that this is an indication of complexity. If the second example is what is intended by including sub-consolidations as a gating factor, we do not agree that this adds complexity to the group. In this respect, further explanation of what is meant when using the term ‘sub-consolidation’ would be helpful.

## KPMG IFRG Limited

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.

## MNP LLP

### Consolidation process

Examples are provided to help auditors evaluate the complexity of the group audit. However, it is not clear if professional judgement should be applied when evaluating these examples, or if the auditor shall conclude that the group audit is deemed complex as soon as one of the examples has not been met. We believe that professional judgment must be applied, as some of the examples provided may not always increase the level of complexity.

The first example is the requirement for the financial information to be prepared in accordance with the same accounting policies for all entities or business units. However, when the group includes entities in multiple jurisdictions, it is possible to find small differences in the accounting policies of the different components as some policies may not be accepted in all jurisdictions. In these cases, management prepares a simple reconciliation to apply the group accounting policies to the financial information from all components. In this example, we believe that the different accounting policies at the component level should not be considered as complex and should not prohibit the auditors to perform the audit engagement under ISA for LCE.

Furthermore, we do not believe that sub-consolidations should prohibit the use of ISA for LCE. The Authority already prohibits the use of the standard in case of large audit group, and therefore we believe that the sub-consolidations that remains will be simple.

## PKF International

### Consolidation Process

We would suggest including a cross reference to the glossary definition of a consolidation within the proposed ISA for LCE to ensure that users understand the intended scope of the standard.

We would suggest that the bullet point on “Intercompany” and “Other Consolidation Adjustments” are divided into 2 separate considerations and examples such as these provided:

- Intercompany adjustments are not complex  
[Indicators of complexity may include cut-off, foreign exchange adjustments, etc.]
- Other consolidation adjustments are not complex  
[Indicators of complexity may include business combinations, foreign exchange, valuation gains and losses, non-controlling interests, etc.]

We would like to understand whether the IAASB have determined “non-controlling interests” to be an indicator of complexity within a consolidation process. In our opinion, this is an area where audit differences can often be identified, and we would propose that a group containing a non-controlling interest should be prohibited from the scope of the proposed ISA for LCE.

In our experience, management tend to perform and/or finalise consolidations towards the end of the audit engagement and auditors are more likely to identify complex intercompany adjustments towards the end of the audit, despite all attempts to identify these at the early planning phases of the engagement. We are concerned that auditors may find themselves in this predicament and that, at this late stage in the audit, they may be more inclined to ‘underplay’ the complexity of such a transaction in order to avoid transitioning from the proposed ISA for LCE to full ISA’s. We recommend that the IAASB considers how safeguards could be introduced into the final standard to manage such situations effectively.

## Price Bailey LLP

We also believe that the requirement for consistency in accounting policies across the group is too restrictive. Most less complex entities will use local GAAP rather than IFRS, therefore there could be some differences in the accounting policies. However these differences are often not significant and the global profession is well accustomed to them.

A further example is a UK charity with a trading subsidiary, there are specific differences due to the existence of a Statement of Recommended Practice for charities but this statement is based on FRS 102 (UK GAAP) and indeed directly refers to the standard in a number of areas.

Additionally, non-coterminous year ends do not always increase complexity.

It is important that the authority is broad enough as if it is too restrictive it will not be commercially viable for firms to adopt.

## **RSM International**

Similarly, a sub consolidation of dormant entities under an intermediate holding company may not necessarily add complexity to the group or the audit. Therefore we suggest either removing the example that “there are no sub-consolidations” in Consolidation Process or clarifying that the auditor needs to assess whether the presence of a sub-consolidation adds complexity such that it is not appropriate to use ISA-LCE.

## **6. Public Sector Organizations**

### **US Government Accountability Office**

In addition, we do not believe that the consolidation process description as a characteristic is sufficient in its definition as simple is not adequate to clarify what level, structure, detail, size, or number of consolidations are appropriate for a group audit under the ISA for LCEs. We find that the use of examples helps but without more description of an appropriate level of consolidation, the examples may be interpreted as the accepted consolidations.

## **7. Member Bodies and Other Professional Organizations**

### **ASSIREVI**

in our view, the existence of sub-consolidations cannot be considered by itself as adding complexity to the group. In this respect, we believe that further explanation of what the IAASB means when using the term ‘sub-consolidation’ would be helpful. We deem it necessary to add an EEM paragraph to the Authority in order to explain when a sub-consolidation add complexity and when it does not.

Finally, we believe it would be helpful to include further guidelines to facilitate the identification of a less complex group. Therefore, the IAASB could consider adding guidelines that clarify:

that different accounting standards adopted by the different subsidiaries do not add complexity if GAAP differences are not relevant;

that different closing year-end dates do not necessarily add complexity (i.e., it depends on the group activities);

how the intercompany transactions and the consolidation entries add complexity to consolidated financial statements (i.e., intercompany transactions in the same currency do not add complexity).

### **Association of Practicing Accountants (APA)**

We also believe that the requirement for consistency in accounting policies across the group is too restrictive. Most less complex entities will use local GAAP rather than IFRS. While there may be some differences in the accounting policies here, these differences are often not significant and the global profession is well accustomed to them.

A further example is a UK charity with a trading subsidiary. There are specific differences due to the existence of a Statement of Recommended Practice for charities, but this statement is based on FRS 102 (UK GAAP) and indeed directly refers to the standard in a number of areas.

Additionally, non-coterminous year ends do not always increase complexity.

### **Chamber of Auditors of the Czech Republic**

Secondly, we do not agree that financial information of all entities should be prepared in accordance with the same accounting policies. If the adjustments to align local GAAP to group accounting policies are not complex, are limited or immaterial, such group may be still less complex. Within EU, the consolidation is often based on the local GAAP financial statements while the adjustments due to conversion from local GAAP to the group financial reporting framework are made by the group management and audited by the group auditor.



## **Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA)**

Consolidation process

We agree that the group auditor needs to consider the complexity of the consolidation process.

### **Chartered Accountants Ireland**

The examples in paragraph A.3 also refer to using the same accounting policies across the group. Local laws may require/permit applying different accounting policies across a group (for example a subsidiary which is permitted to use FRS 102 where the group uses IFRS) so we do not believe that this should necessarily preclude using the LCE standard.

Within a group there may be a new subsidiary with a different year end in the year of set up due to local laws and regulations so we do not believe that this characteristic in these circumstances should be a barrier to using the LCE standard.

We agree that sub-consolidations are more likely than not a characteristic of complexity in the group.

We do not believe that routine consolidation adjustments should preclude using the standard.

## **Consiglio Nazioanle dei Dottori Commercialisti e degli Esperti Contabili (CNDCEC)**

In general, we agree, however in practice it is unlikely to find small groups with all the entities applying the same accounting policies, since every jurisdiction may adopt different accounting principles and the entities belonging to the group could then be required to adopt different reporting standards and policies. The provision included in the characteristics of “consolidation process”, if restrictively interpreted, could lead to consider the proposed ISA for LCE as applicable only to small groups, all operating in the same jurisdiction. This would be also in contrast with the qualitative requirement on the group structure that provides for a few jurisdictions and not for a single one as provided in the “Group Structure and Activities” characteristics.

### **EXPERTsuisse**

Furthermore, or to make an example that illustrates our view, think of a non-complex group with sub-consolidations, where the non-complex group and its consolidation is straightforward.

### **Institute of Chartered Accountants in England and Wales (ICAEW)**

The examples provided in A.3 also state that financial information across the group must be prepared using the same accounting policies. It would be very helpful to provide an example involving a small not-for-profit group, such as a museum with a small trading subsidiary, where the two entities are subject to different GAAP reporting requirements, as dictated by legislation, but using the same accounting policies. Qualitative characteristics such as these should not necessarily preclude the use of the standard.

## **International Federation of Accountants’ Small and Medium Practices Advisory Groups (SMPAG)**

We understand that it is not the intention that if entity does not meet one qualitative characteristics it is unable to use ISA for LCEs but believe this could be made clearer. For example, we are concerned that the second bullet on the consolidation process “All entities or business units have the same financial reporting period-end as that used for group financial reporting” could be interpreted as applying even when entities or business units have different period-ends and are judged to be immaterial or non-substantial to the group. In our view, these would not necessarily involve much complexity and could be covered by a similar requirement to ISA 600 (Revised) para. 40 where the group auditor takes responsibility for evaluating whether appropriate adjustments have been made.

### **Nordic Federation of Public Accountants (NRF)**

We also suggest deleting the first bullet linked to the “Consolidation Process”. In our view the use of different accounting policies within the group is not necessarily in itself the problem. Rather, the issue is related to how complex the consolidation adjustments would be and that issue is already addressed in the last bullet.

## **2. Do you agree with proposed group-specific qualitative characteristics to describe the scope of group audits\b. Agree with Comments\b-2. Comments on Specific Characteristics\iv. Suggestions for Additional Characteristics**

### **3. Regulators and Audit Oversight Authorities**

#### **Committee of European Auditing Oversight Bodies (CEAOB)**

The “group-specific” characteristics in paragraph A.3 should also include the number of components determined by the auditor to better align with the concepts in ISA 600. The more components that are identified, the more complex the group is likely to be.

#### **Independent Regulatory Board for Auditors – South Africa (IRBA)**

##### **Complexity**

When determining the complexity of a group, we recommend that the qualitative characteristics be expanded to consider the following additional qualitative characteristics mentioned in paragraph A93 of ISA 600 (Revised):

- The structure and complexity of the group’s IT environment.
- Relevant regulatory factors, including the regulatory environment.
- The ownership, and relationships between owners and other people or entities, including related parties.

#### **Irish Auditing and Accounting Supervisory Authority (IAASA)**

The “group-specific” characteristics in paragraph A.3 should also include the number of components determined by the auditor to better align with the concepts in ISA 600. The more components that are identified, the more complex the group is likely to be.

### **5. Accounting Firms**

#### **Ernst & Young Global Limited**

##### **Other Characteristics Relevant for Group Audits**

Relevant factors (e.g., level of centralization of activities relevant to financial reporting, nature and extent of commonality of controls, similarity of the group’s activities and business lines) for determining centralized audit procedures in ISA 600 (Revised) paragraph A124 have been excluded from paragraph 10.6.1 in ED-ISA for LCE Part 10. These factors could drive complexity and therefore we recommend that they are included within the Additional Qualitative Characteristics Relevant for Group Audits in the ED-ISA for LCE Authority paragraph A.3.

In a group audit, auditors need to understand and document the Group and its Environment, the Applicable Financial Reporting Framework and the Group’s System of Internal Control. The requirements for these items are included in the ED-ISA for LCE Part 6. However, additional guidance is needed to reflect group considerations related to the requirements from ISA 600 (Revised) paragraph 30 (specifically (a)(i)(c), (a)(ii)). We believe that the extent to which the group’s business model integrates the use of information technology (ISA 600 (Revised) paragraph 30(a)(i)(c)) and the regulatory factors impacting the entities and business units in the group (ISA 600 (Revised) 30(a)(ii)) should be included as considerations of complexity in the Authority of ED-ISA for LCE.

### **7. Member Bodies and Other Professional Organizations**

#### **South African Institute of Chartered Accountants (SAICA)**

##### **Complexity:**

When understanding complexity of the group, we recommend that the requirements that need to be included in the LCE standard be expanded to include areas that would make a group audit more complex and therefore exclude it from the scope of LCE group audits.

We recommend the use of guidance available in ISA 600 (Revised) par. A93 to clearly indicate the factors that would likely increase complexity of the group.

Some specific areas that are recommended for further consideration:

- Complexity of the group’s structure, including consideration of shared services centres, service organisations and equity accounted investments
- Geographic locations
- Structure and complexity of the group’s IT environment
- Relevant regulatory factors
- Ownership, and relationships between owners and other people or entities, including related parties.

## **2. Do you agree with proposed group-specific qualitative characteristics to describe the scope of group audits\b. Agree with Comments\b-2. Comments on Specific Characteristics\v. Other Comments**

### **4. National Auditing Standard Setters**

#### **Institut der Wirtschaftspruefer in Deutschland e.V.(IDW)**

We also have an issue with the proposed requirement in paragraph A3 extending the general qualitative characteristic “nature of the finance function” not only to individual entities and business units, but also to the group. By extending the qualitative characteristic “nature of the finance function” to the group, the characteristic imposes a centralized finance function for the group, when a decentralized finance may be appropriate for each entity and business unit within the group. In addition, the separate simple finance functions with five persons or less for each entity or business unit would be added up for the group even though there is no increase in complexity in the financial information and the audit work related to each entity or business unit and, through the consolidation, no additional complexity for the group as a whole, which may only require less than five persons for the consolidation and accounting at headquarters. We suggest that paragraph A3 recognizes that the qualitative characteristic “nature of the finance function” relates to the entities and business units, but that this does not imply that a centralized finance function is needed for the group or that separate finance functions need to be added up for the group when considering this characteristic.

### **5. Accounting Firms**

#### **Deloitte LLP**

The exposure draft is silent on Equity Method Investments (EMI) and an entity’s use of Shared Service Centers (SSC) in a manner that is relevant to its financial reporting. We encourage the IAASB to consider addressing whether or how the existence of EMIs or SSCs are indicators of complexity or characteristics that would or may preclude a group entity from being an LCE, and therefore an entity that could be audited in accordance with the ISA for LCE.

Consider whether the following factors should be addressed as additional qualitative characteristics:

- Nature and complexity of IT systems used within the group
- Existence of common or central management and finance teams
- Different or unrelated business activities within the group

### **7. Member Bodies and Other Professional Organizations**

#### **Accountancy Europe**

Some of our members believe that the Authority of the standard should also clarify whether it is possible to use ISA for LCE for one or more components in cases where the relevant group is audited in accordance with ISAs.

#### **Chartered Accountants Ireland**

The use of ISA for LCE in the individual entities but full ISA in the group audit needs to be permitted. The message on the proposed standard is that it is the same quality audit opinion therefore in our view auditors of subsidiaries should be free to use it as appropriate irrespective of the decision at the group level.

## **2. Do you agree with proposed group-specific qualitative characteristics to describe the scope of group audits\c. Disagree**

### **3. Regulators and Audit Oversight Authorities**

#### **Financial Reporting Council – UK (FRC)**

However, we are still of the view that the scope and authority of the ISA for LCE is too loosely defined. In particular, the qualitative characteristics—including the proposed additional characteristics relevant for group audits—allow too much scope for auditor judgement as to whether the use of this standard is appropriate in the circumstances.

## **2. Do you agree with proposed group-specific qualitative characteristics to describe the scope of group audits\c. Disagree**

### **4. National Auditing Standard Setters**

## Malaysian Institute of Accountants - Auditing and Assurance Standards Board (MIA)

We are of the view that the use of the ISA for LCE may be permitted for a group audit when the

- group entity and all components are audited by a single firm;
- consolidation does not require adjustments to reconcile financial information of components recorded under a local financial reporting framework to that of the group financial reporting framework; and
- group audit does not involve using the work of component auditors other than in certain limited circumstances as the Board has proposed in the ED.

While the proposed qualitative characteristics may serve as a guide for the auditor to consider the scope of a group audit when deciding on the use of this standard, it could still result in subjective judgements that differs from firm to firm. The IAASB will need to consider other ways to drive more consistencies in their application.

## 7. Member Bodies and Other Professional Organizations

### Malaysian Institute of Certified Public Accountants (MICPA)

In the event that the IAASB continues to issue this as a standard, we believe that the standards should not be prescriptive and suggest the IAASB to provide the group-specific qualitative characteristics separately.

## 9. Individuals and Others

### John Kelly

I do not know if I agree or not – they are complex. See my point G above, speeding time to, perhaps incorrectly, determine if the entity under audit is an LCE, is probably a waste of time.

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

### Agree

## 4. National Auditing Standard Setters

### Botswana Accountancy Oversight Authority (BAOA)

The Authority agrees with the content of proposed part 10 and related conforming amendments, as these are clear to understand. Furthermore, Part10 is based on the requirements of ISA 600(Revised) and where such requirements have not been included in part 10, the exposure draft has clearly stated what has been excluded.

### Public Accountants and Auditors Board Zimbabwe

PAAB agrees with the proposed part 10 and related conforming amendments since they expand on the application of other conventional parts of the ISA for LCE to an accepted group audit as per the ISA for LCE model.

## 5. Accounting Firms

### Baker Tilly International

Yes.

### MNP LLP

We agree with the content of proposed Part 10 and related conforming amendments. We believe that Part 10 as drafted is coherent with the revised ISA 600 and will provide the necessary requirements for auditors to report on group audits.

We would be pleased to offer assistance to the IAASB in further exploring issues raised in our response or in finding alternative solutions.

## 7. Member Bodies and Other Professional Organizations

### Botswana Institute of Chartered Accountants (BICA)

Response:

We agree with the content of proposed Part 10 and related conforming amendments are elaborated in paragraphs 19- 25 of the exposure draft as this will help to ensure consistency with other ISAs such as ISA 600 (Revised).

### CPA Ireland

CPA Ireland agrees with the content of the proposed part 10 and related conforming amendments.

### **Federation of Accounting Professions of Thailand (TFAC)**

Yes, they are sufficient.

### **Institute of Chartered Accountants of Nigeria**

Response:

We agree with the content of the proposed Part 10 and related conforming amendments. These additions will further enrich the qualitiveness of group audits in less complex entities.

### **Instituto de Auditoria Independente do Brasil - Ibracon**

We fully support the content of Part 10 and the corresponding conforming amendments. We agree with the decision to not include the content of ISA 600. Moreover, we agree that the LCE standard's requirements are adequate to address the involvement of a component auditor in limited circumstances, and additional material is not necessary. We also endorse the EEM.

### **Malaysian Institute of Certified Public Accountants (MICPA)**

We do not have any objection to the content of the proposed Part 10 and the related conforming amendments.

### **Wirtschaftsprüferkammer (WPK)**

Yes, we agree.

### **3. Do you agree with the content of proposed Part 10 and related conforming amendments\b. Agree with Comments\10.1. Objective**

## **4. National Auditing Standard Setters**

### **Hong Kong Institute of Certified Public Accountants (HKICPA)**

While we generally agree with the content of proposed Part 10 and related conforming amendments, we have the following observations for the IAASB's consideration:

Objective

The proposed paragraph 10.1 only includes one out of the four objectives set out in paragraph 13 of ISA 600 (Revised).

## **5. Accounting Firms**

### **PriceWaterhouseCoopers**

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.

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.



## 7. Member Bodies and Other Professional Organizations

### South African Institute of Chartered Accountants (SAICA)

Yes, we agree with some of the proposed contents in part 10, however we are of the view that the IAASB has to further refine the standard to take into account the following:

The Objectives in the section should also include an overarching principle:

Evaluate whether sufficient appropriate audit evidence has been obtained from the audit procedures performed.

### 3. Do you agree with the content of proposed Part 10 and related conforming amendments\b. Agree with Comments\10.2. Planning Activities

## 3. Regulators and Audit Oversight Authorities

### Committee of European Auditing Oversight Bodies (CEAOB)

Planning activities

Paragraph 10.5.1 should clarify that the auditor is required to identify and assess the risk of material misstatement of the group financial statements, whether due to fraud or error, consistent with Part 6 of the ED.

We question whether the examples of components in the explanatory material for paragraph 10.5.1 are appropriate for use in a standard for less complex entities. For example, reference is made to newly formed or acquired entities or those in which significant changes have taken place, all of which increase complexity. The examples also refer to the nature and extent of commonality of controls, which again impact the group's complexity.

The explanatory material on resources should include a reminder that component auditors may only be used in limited circumstances, as set out in paragraph A.1(d)(ii).

### Irish Auditing and Accounting Supervisory Authority (IAASA)

Planning activities

Paragraph 10.5.1 should clarify that the auditor is required to identify and assess the risk of material misstatement of the group financial statements, whether due to fraud or error, consistent with Part 6 of the ED.

We question whether the examples of components in the explanatory material for paragraph 10.5.1 are appropriate for use in a standard for less complex entities. For example, reference is made to newly formed or acquired entities or those in which significant changes have taken place, all of which are likely to increase complexity. The examples also refer to the nature and extent of commonality of controls, which again impact the group's complexity.

The explanatory material on resources should include a reminder that component auditors may only be used in limited circumstances, as set out in paragraph A.1(d)(ii).

## 4. National Auditing Standard Setters

### Hong Kong Institute of Certified Public Accountants (HKICPA)

Acceptance or continuance of the group audit engagement

Paragraph 10.2.2. of the ED states that "If, after the acceptance or continuance of the group audit engagement, the engagement partner concludes that sufficient appropriate audit evidence cannot be obtained, the engagement partner shall consider the possible effects on the group audit."

We note that paragraph 10.2.2. is adopted from paragraph 18 of ISA 600 (Revised). In ISA 600 (Revised), paragraph 18 is accompanied by application materials providing guidance on possible responses by the group auditor against the circumstance.

We are conscious that paragraph 10.2.2. alone may not be very useful as it does not explain the expected response. We suggest the IAASB to expand paragraph 10.2.2. by incorporating relevant guidance, such as those provided to paragraph 18 of ISA 600 (Revised).

## 5. Accounting Firms

### BDO International

We agree with the content of proposed Part 10 and related conforming amendments, however we have the following comments on the content of proposed Part 10:

In paragraph 10.2.2, the end of the sentence about considering ‘the possible effects on the group audit’ is vague and we recommend providing more clarity or guidance in what these possible effects might be. We suggest using detailed wording similar to ISA 600 paragraph 13 or referring to the effect on the audit opinion like in ISA 600 paragraph 45.

## PriceWaterhouseCoopers

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.”

## 7. Member Bodies and Other Professional Organizations

### South African Institute of Chartered Accountants (SAICA)

#### Engagement acceptance and continuance:

Engagement acceptance and continuance was not considered in the proposed section as it pertains to a group audit specifically. We recommend that it should include, in addition to the decision in the main LCE standard, the following in the group audit section:

Whether the auditor:

Will have unrestricted access to those charged with governance of the group, group management, those charged with governance of the component, component management and component information, including of those components that are accounted for by the equity method (if relevant); and

Will be able to perform necessary work on the financial information of the components when applicable.;

Whether sufficient and appropriate resources are assigned or will be made available.

Currently the proposed section only includes: “If, after the acceptance or continuance of the group audit engagement, the engagement partner concludes that sufficient appropriate audit evidence cannot be obtained, the engagement partner shall consider the possible effects on the group audit.” The inclusion of considerations set out in ISA 600 Revised par. A36 may be relevant to help the auditor conclude.

ISA 600 (Revised) clearly includes a before and after assessment of the acceptance and continuance decision.

ISA 600 (Revised) par. 17: “Before accepting or continuing the group audit engagement, the engagement partner shall determine whether sufficient appropriate audit evidence can reasonably be expected to be obtained to provide a basis for forming an opinion on the group financial statements.” (Ref: Para. A32–A35)

ISA 600 Revised par. 18: “If, after the acceptance or continuance of the group audit engagement, the engagement partner concludes that sufficient appropriate audit evidence cannot be obtained, the engagement partner shall consider the possible effects on the group audit.” (Ref: Para. A36)

ISA 600 (Revised) par. A36 (amended to reflect appropriateness in a LCE group): Restrictions may be imposed after the group engagement partner’s acceptance of the group audit engagement that may affect the engagement team’s ability to obtain sufficient appropriate audit evidence. Such restrictions may include those affecting:

The group auditor’s access to component information, management or those charged with governance of components, (including relevant audit documentation sought by the group auditor); or The work to be performed on the financial information of components.

#### Planning activities:

We recommend that clarity or guidance be provided with regards to the following as included in proposed section 10.6.1:

The auditor may determine that the financial information of components can be considered as a single population for the purpose of performing further audit procedures, for example, when transactions are considered to be homogeneous because they share the same characteristics, the related risks of material misstatement are the same, and controls are designed and operating in a consistent way. In such cases, group performance materiality often will be used for purposes of performing these procedures.

A group may have three legal entities with similar business characteristics, operating in the same geographical location, under the same management, and using a common system of internal control, including the information system. In these circumstances, the auditor may decide to treat these three legal entities as one component.

In these circumstances the auditor would need to obtain evidence that supports the commonality and/or principles of shared service centres applicable to be in a position to treat the population as one population. We recommend the inclusion of additional requirements in the section to clarify that audit effort is required to conclude that the commonality of characteristics, risks and controls as set out in the section 10.6.1 applies.

### **3. Do you agree with the content of proposed Part 10 and related conforming amendments\b. Agree with Comments\10.3. Materiality**

#### **5. Accounting Firms**

##### **Grant Thornton International Limited**

We agree with the content of the proposed Part 10; nevertheless, there are some areas that need additional guidance or enhancements:

Paragraph 10.3.1 – As we note above, equity method investments will typically be audited by a component auditor, thus preventing the use of the ISA for LCE for audits of group financial statements that include equity method investments. However, should the IAASB extend the proposed Authority to allow the ISA for LCE to be used for simple groups with equity method investments audited by component auditors, essential explanatory material will be needed on the determination of component performance materiality for such equity method investments, similar to that included in paragraph A119 of ISA 600 (Revised).

##### **PKF International**

#### **Materiality**

The grey box after paragraph 10.3.1, states that, “In these circumstances, the auditor may need to consider whether a component performance materiality lower than the amount may be appropriate for those particular classes of transactions, account balances or disclosure.” We are unclear as to what the term “amount” means in this context.

### **7. Member Bodies and Other Professional Organizations**

#### **South African Institute of Chartered Accountants (SAICA)**

#### **Materiality:**

We recommend the inclusion of “The measures used internally and externally to assess the financial performance of the entities or business units;” as this is quite relevant in understanding risks and how to determine materiality in the group context.

Determination of materiality as it pertains to equity accounted investments:

Guidance around equity accounted investments is not provided in the proposed section, and as set out above, if considered to be within scope of an LCE group audit, we recommend including guidance similar to ISA 600 (Revised) par.A119:

“When determining component performance materiality for a non-controlling interest in an entity that is accounted for by the equity method, the group auditor may consider the group’s ownership percentage and the share of the investee’s profits and losses.”

### **3. Do you agree with the content of proposed Part 10 and related conforming amendments\b. Agree with Comments\10.4. Understanding the Group and Its Environment, the Applicable FRF and the Group's System of IC**

#### **5. Accounting Firms**

##### **PKF International**

Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control

Paragraph 10.4.1.(a) duplicates most of the requirements within ISA 600 (Revised) paragraph 30(a)(i) but omits requirement (c) "The extent to which the group's business model integrates the use of information technology (IT)". In our view, this omission is problematic because of the risk that the auditor does not obtain sufficient understanding on this area of the entity's control environment. It is also our view that this level of understanding could be relevant and necessary to the circumstances of a group audit engagement to which the proposed ISA for LCE is eligible. In response to this omission, we recommend that the IAASB re-evaluates whether this specific requirement has already been appropriately and sufficiently addressed through paragraph 6.3.1.

## PriceWaterhouseCoopers

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."

## 7. Member Bodies and Other Professional Organizations

### South African Institute of Chartered Accountants (SAICA)

Layout of section:

The section on "Understanding the Group and Its Environment, the Applicable Financial Reporting Framework and the Group's System of Internal Control" should be included before the section on "Materiality". Understanding of the Group and its Environment would inform the determination of materiality.

### **3. Do you agree with the content of proposed Part 10 and related conforming amendments\b. Agree with Comments\10.5. Identifying and Assessing the Risks of Material Misstatement**

## 5. Accounting Firms

### BDO International

The EEM for paragraph 10.5.1 only refers to risks of material misstatement due to fraud. While we agree with including group-specific guidance related to fraud, we think it is equally important to include group-specific guidance that covers material misstatements due to error. More specific guidance on the process for identifying risks of material misstatement, whether due to fraud or error, should be added to the EEM. The thought process of considering risks of material misstatement in components is important for LCEs to ensure that all risks of material misstatement at the group level have been identified.

## Ernst & Young Global Limited

For the relevant requirements and guidance for group audits to be properly incorporated into the ED-ISA for LCE (based on the proposed Authority), we believe the following items should be included or revised in the ED-ISA for LCE Part 10:

Paragraph 10.5.1 of ED-ISA for LCE Part 10 does not contain guidance about the risk assessment process being iterative and dynamic in a group audit when developing an initial expectation about the potential risks of material misstatements and initial identification of significant classes of transactions and significant accounts (refer to ISA 600 (Revised) paragraph A108). In our view, this process is similar regardless of an entity's complexity and the ED-ISA for LCE Part 10 should be aligned to ISA 600 (Revised).

## PriceWaterhouseCoopers

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.”

### **3. Do you agree with the content of proposed Part 10 and related conforming amendments\b. Agree with Comments\10.6. Responding to the Assessed Risks of Material Misstatement**

#### **5. Accounting Firms**

##### **BDO International**

Paragraph 10.6.2 (d) only refers to responding to assessed risks of material misstatement due to fraud arising from consolidation process. While we agree with that, again, we suggest including the words ‘or errors’ in the sentence, as it is equally important to respond to assessed risks of material misstatement due to errors in the consolidation process.

##### **Ernst & Young Global Limited**

In paragraph 10.6.1 of ED-ISA for LCE Part 10, we believe the flow of determining an audit response to the identified risks of material misstatement in the EEM should be reversed such that the engagement team first considers performing audit procedures centrally and then considers performing audit procedures at the component level, which is consistent with ISA 600 (Revised) paragraph A124 and ISA 600 (Revised) paragraph A127 and would also be consistent with our expectations for group audits of LCEs.

### **3. Do you agree with the content of proposed Part 10 and related conforming amendments\b. Agree with Comments\10.7. Specific Communication Requirements**

#### **5. Accounting Firms**

##### **Ernst & Young Global Limited**

Even if there is a single audit team performing procedures, it may be appropriate for auditors to communicate with group management regarding the structure of the group audit (refer to ISA 600 (Revised) paragraph 54 and ISA 600 (Revised) paragraph 57). As a result, we believe the guidance in ED-ISA for LCE Part 10.7 should be expanded to address how the auditor has set up the structure and this would include situations when the group auditor considered certain entities or business units together as a component for purposes of planning and performing the group audit.

##### **Grant Thornton International Limited**

Paragraph 10.7.1 – It is not clear how this requirement differs from the auditor’s responsibilities in relation to fraud as stated in the Exposure Draft of ISA for LCE paragraph 1.8.6. As this does not appear to be an incremental requirement, we recommend that this paragraph be removed.

##### **PriceWaterhouseCoopers**

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.

### **7. Member Bodies and Other Professional Organizations**

#### **South African Institute of Chartered Accountants (SAICA)**

Communication:

We are of the view that there should be an inclusion of the requirement to communicate corrected and uncorrected misstatements of the component financial information identified at component level that are above the threshold communicated by the group auditor.

### **3. Do you agree with the content of proposed Part 10 and related conforming amendments\b. Agree with Comments\10.8. Specific Documentation Requirements**

#### **3. Regulators and Audit Oversight Authorities**



## Committee of European Auditing Oversight Bodies (CEAOB)

Specific documentation requirements

Paragraph 10.8 should also require the auditor to document their justification for the use of component auditors, if any, and why their physical presence was required to perform the audit procedure.

## Irish Auditing and Accounting Supervisory Authority (IAASA)

Specific documentation requirements

Paragraph 10.8 should also require the auditor to document their justification for the use of component auditors, if any, and why their physical presence was required to perform the audit procedure.

## 4. National Auditing Standard Setters

### Japanese Institute of Certified Public Accountants (JICPA)

Response to 3:

Paragraph 10.8.1. does not include a documentation requirement relating to the understanding of the group's system of internal control to be obtained in accordance with paragraph 10.4.1. Since Part 10 specifically requires to obtain an understanding of the group's system of internal control, a documentation requirement similar to paragraph 59(e) of ISA 600 (Revised) should be included in Part 10.

## 5. Accounting Firms

### BDO International

In paragraph 10.8.1 relating to specific documentation, we suggest adding bullets related to documenting the group-specific considerations in paragraphs 10.4.1 (understanding the group), 10.5.1 (identifying and assessing risks of material misstatement, including which components such risks reside in) and 10.6.1 (further audit procedures to be performed on components). We don't think the general documentation requirement in Part 2.5 of ISA for LCEs is specific enough, particularly since ISA for LCEs paragraph 2.5.1 states that 'Specific matters to be documented are set out throughout this [draft] standard'. This would suggest that we should include some specific documentation requirements in Part 10 beyond the two that are currently included in paragraph 10.8.1 (determination of components and basis for component performance materiality). For example, adding that the key elements of the understanding of the group's system of internal control in accordance with paragraph 10.4.1.(b) shall be included in the audit documentation.

## 3. Do you agree with the content of proposed Part 10 and related conforming amendments\b. Agree with Comments\Component Auditors Including Comments Related to Q1and Q2

## 3. Regulators and Audit Oversight Authorities

### Committee of European Auditing Oversight Bodies (CEAOB)

General comment

Paragraph A.1.(d)(ii) permits limited involvement of component auditors in a group audit. However proposed Part 10 of the ISA for LCE does not address the considerations when a component auditor is involved in performing a "specific audit procedure".

### Irish Auditing and Accounting Supervisory Authority (IAASA)

General comment

Paragraph A.1.(d)(ii) permits limited involvement of component auditors in a group audit. However proposed Part 10 of the ISA for LCE does not address the considerations when a component auditor is involved in performing a "specific audit procedure".

## 4. National Auditing Standard Setters

### Austrian Chamber of Tax Advisors and Public Accountants (KSW)

In general, we support the requirements in Part 10 which are built on ISA.

The content of proposed Part 10 is now written in the sense of very rare use for LCE-Groups because the use of component auditors is prohibited. We therefore propose to include in Part 10 a selection of key requirements of ISA 600 (Revised) relevant to LCE-Group Audits involving component auditors.

### Canadian Auditing and Assurance Standards Board

Yes – we agree. We have not identified any issues with the proposed requirements and EEM set out in ED-ISA for LCE Part 10.

However, in our response to Question 1, we recommended that the IAASB remove the prohibition on the use of the proposed ISA for LCE when component auditors are involved. If the IAASB accepts our recommendation and includes component auditors in the scope of the proposed ISA for LCE, proposed Part 10 would need to be amended to include requirements and EEM relevant for an LCE related to the use of component auditors.

As noted in our response to Question 1, a draft of Part 10 that the IAASB discussed in September 2022 contained requirements and EEM addressing component auditors. Such material is necessary to ensure the group auditor interact appropriately with the component auditor. We recommend that this material be reinstated.

### **Hong Kong Institute of Certified Public Accountants (HKICPA)**

Following our recommendation set out in Q1 above, should the IAASB decide to expand the use of component auditors to circumstances of restricted access to the components due to laws and regulations, we would suggest the objective of proposed Part 10 to incorporate the objective set out in paragraph 13(c) of ISA 600 (Revised), and other paragraphs of ISA 600 (Revised) relevant to paragraph 13(c) into proposed Part 10.

### **Institut der Wirtschaftsprüfer in Deutschland e.V.(IDW)**

Subject to our view that Part 10 should be augmented for the requirements for the use of component auditors, we agree with the content of proposed Part 10 and the related conforming amendments.

### **Malaysian Institute of Accountants - Auditing and Assurance Standards Board (MIA)**

Overall, we agree with the content of proposed part 10 and the related conforming amendments.

We also recognise that should the IAASB decide to change the scope of when component auditors can and are involved, this would similarly require further consideration of the materials presently drafted in the proposed Part 10 of the ED.

## **5. Accounting Firms**

### **Ernst & Young Global Limited**

As indicated in our response to Question 1 above, we believe that the proposed prohibition for group audits where component auditors are involved is too restrictive. We believe that there should be no prohibition on the involvement of component auditors, and it should be the auditor's judgment to determine if the use of component auditors creates complexity. As a result, we believe that paragraphs 23-28, 34, 35(b), 36, 42, 45-52, 54, 58, and 59 (c, d, f, and g) from ISA 600 (Revised) should be included within ED-ISA for LCE Part 10 as requirements when component auditors are involved. In addition, the excluded definitions from ISA 600 (Revised) paragraph 14 (h-j) should be added to the ED-ISA for LCE Glossary. EEM or other guidance should be added to the Auditor's Report in ED-ISA for LCE regarding the circumstances when group financial statements are required by law or regulation to refer to a component auditor (refer to ISA 600 (Revised) paragraph 53).

### **Grant Thornton International Limited**

Use of a component auditor – The proposed Authority currently allows for component auditors to be used in certain limited situations. When component auditors are involved, the group auditor will have responsibility for managing and achieving quality for the group audit engagement in respect of that component auditor. For example, responsibilities relating to direction and supervision of the component auditor, communication of relevant ethical requirements, and so on. Accordingly, we recommend that Part 10 of the ISA for LCE has clear linkage to Part 3 where the requirements relating to these responsibilities reside.

### **KPMG IFRG Limited**

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).

## PKF International

Response:

We agree with the proposed content (and related conforming amendments) but would suggest that the IAASB also considers:

### Group Auditor and the Component Auditor Relationship

Part 10 does not appear to include any of the specific requirements from ISA 600 regarding the group auditor relationship with the component auditor (e.g., instructions, reporting, review, documentation, etc). We have a concern that this may lead to instances of poor-quality audit procedures being performed by a component auditor due to lack of communication, oversight and/or review by the group auditor.

We would recommend that the IAASB re-evaluates whether the existing requirements in part 3 of the proposed ISA for LCE provide sufficient safeguards over the supervision and review of the component auditor by the engagement partner or whether additional requirements from ISA 600 should be brought into the proposed standard.

## SRA (NL)

We agree with the proposed text, subject to any changes necessary as a consequence of our view, expressed under point 1 above.

## 7. Member Bodies and Other Professional Organizations

### Accountancy Europe

Yes, we agree with the content relevant to engagements where component auditors are not involved. However, we invite the IAASB to widen the scope of the standard to include less complex groups where group engagement partner determines that he or she can be sufficiently involved in the work on components. Accordingly, the IAASB should develop requirements and application material for cases when component auditors are involved but the engagement is conducted as per ISA for LCE. These should be based on relevant requirements in ISA 600 Revised.

## ASSIREVI

With respect to the content of proposed Part 10 of the ED, we refer to our response to question 1 and its impacts, especially as regards the proposed inclusion of:  
the possibility to involve the component auditor in circumstances other than those currently envisaged by paragraph A.1 (d) (ii) of the Authority;  
a definition of the component auditor that is consistent with ISA 600R;  
specific requirements and EEM defining the involvement of the component auditor in line with that established by ISA 600R.

## Chamber of Auditors of the Czech Republic

Yes. But we are still missing clarification whether it is possible to use component audit work performed under ISA for LCE for the purpose of the group audit that is performed under full ISA.

## Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA)

We agree with the content of the proposed Part 10 and related conforming amendments. However, if the prohibition against the use of component auditors is removed, Part 10 will need to include requirements in relation to how the group auditor will interact with the component auditor and the respective responsibilities of the group auditor and the component auditor.

## Chartered Accountants Ireland

We believe that additional guidance relevant to the use of component auditors from ISA 600, in the circumstances where they are permitted, should be included in part 10 of this standard.  
The relevant paragraphs that should be included are paragraphs 19, 20, 40, 42, 43 and A7, A 32-41, A54, A57-61.

## Consiglio Nazioanle dei Dottori Commercialisti e degli Esperti Contabili (CNDCEC)

In general, we agree. However, we suggest not to include the limitation to the use of the ISA for LCE in case of use of component auditors (see the comment at question 1). Furthermore, should the proposed wording be accepted as it is, we point

out that, in case of involvement of component auditors with their physical presence required, there is no provision obliging them to prove their independence and ability to carry out the activity.

### **CPA Australia**

We generally agree with the content of proposed Part 10 and related conforming amendments, except for the issues discussed in Question 1 above.

### **European Federation of Accountants and Auditors (EFAA) (2)**

We generally agree.

If, as we hope, the IAASB decides to change the scope of when component auditors are involved, we recognize this will require further consideration of the material in proposed Part 10.

### **Institute of Chartered Accountants of Scotland (ICAS)**

We are broadly supportive of the proposed content to be included in Part 10 of the ISA for LCE and related conforming amendments. However, in line with our comments above, we believe that there is a need for the IAASB to widen the scope of group audits that fall within the definition of an LCE and therefore to incorporate further requirements and application material as deemed necessary, based on those in ISA 600 Revised.

### **Instituto Mexicano de Contadores Públicos (IMCP)**

Response to question #3

Yes, we agree with the content of the Part 10 proposed and the related confirming amendments except for, as noted in our response to question #1, the proposal to exclude all reference to component and component auditor.

### **International Federation of Accountants' Small and Medium Practices Advisory Groups (SMPAG)**

Subject to our comments in response to question 1, we agree with the content of proposed Part 10 and the related conforming amendments.

We recognize that should the IAASB decide to change the scope of when component auditors are involved, this would require further consideration of the material in proposed Part 10 related to the involvement of component auditors.

### **Korean Institute of Certified Public Accountants (KICPA)**

The KICPA believes that the proposed Part 10 has an appropriate level of clarity, understandability and practicality of application.

We agree with them. However, the requirements relevant to the component auditor should be added, as described in our answer to Q1.

### **Malta Institute of Accountants**

Except for the blanket prohibition referred to in 1 above, we agree. It is more or less in line with ISA 600.

### **National Institute of Public Accountants of Colombia (INCP)**

Yes, as long as the remarks made to questions 1 and 2 are considered.

### **Nordic Federation of Public Accountants (NRF)**

Yes, we agree with the content given the proposed limitation in prohibiting the involvement of component auditors.

We recognize that should the IAASB decide to change the scope of when component auditors can be involved, this would require further consideration of the material in proposed Part 10.

### **Pan-African Federation of Accountants (PAFA)**

PAFA Response

Generally, we agree with the content of proposed Part 10 and related conforming amendments, however, we wish to reiterate our concerns as expressed in our response to Questions 1 and 2 encourage the Board to consider broadening the exemption as it relates to the use of component auditors as well as to reconsider the proposed group-specific qualitative characteristics especially as it relates to “group structures and activities.”

### **3. Do you agree with the content of proposed Part 10 and related conforming amendments\b. Agree with Comments\Conforming Amendments - Auditor's Report**

#### **4. National Auditing Standard Setters**

##### **Compagnie Nationale des Commissaires aux Comptes (CNCC) and Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)**

Nowhere in section 10 is there any reference to the auditor's report. We suggest taking the text of the foot note 2 of page 21 of the ED, that relates to Part 9 of the extent ED ISA for LCEs and inserting it in section 10 as a requirement between 10.7 and 10.8.

##### **Hong Kong Institute of Certified Public Accountants (HKICPA)**

#### **Illustrative reports**

We note that the IAASB anticipates to include illustrative reports relevant to group audits in the Non-Authoritative Supplemental Guide on Reporting after finalization of the proposed ISA for LCE. We welcome and appreciate the IAASB's effort in this regard.

As suggested in our response to ED-ISA for LCE, Part 9 provides an illustrative auditor's report on an unmodified opinion, but has not illustrated other types of opinions such as a qualified opinion, adverse opinion and unmodified opinion with material uncertainty relating to going concern which are included in the Reporting Supplemental Guide. For completeness and ease of use, we recommend that the IAASB to re-locate various illustrative opinions from the Reporting Supplemental Guide to the proposed standard, including those relating to group audits.

#### **5. Accounting Firms**

##### **Deloitte LLP**

Subject to our comments above, we generally agree with the content of proposed Part 10 and related conforming amendments. We believe it would also be beneficial to have an illustrative auditor's report reflecting the additional content for group audits (instead of describing the additional content via a footnote) and therefore recommend adding one.

##### **Price Bailey LLP**

Overall we agree with much of the content of proposed part 10 and related conforming amendments. We note that the changes for the audit report are achieved with the use of footnotes. Foot notes are often overlooked and therefore the content should be included within the body of the report where appropriate.

##### **PriceWaterhouseCoopers**

#### **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.

#### **7. Member Bodies and Other Professional Organizations**

##### **ASSIREVI**

Finally, with respect to the conforming amendments for Part 9 of the ED, we suggest that the Independent auditors' report section should include an example report for consolidated financial statements as well. In our view, such an example would support the auditor better than what presently included in note 2 of the ED.

##### **Association of Practicing Accountants (APA)**



Overall, we agree with much of the content of the proposed part 10 and related conforming amendments. We note however, that the changes for the audit report are achieved with the use of footnotes, which are often overlooked and would therefore recommend the content should be included within the body of the report where appropriate.

## **Institute of Chartered Accountants in England and Wales (ICAEW)**

We note that changes to the audit report in the conforming amendments are achieved by means of footnotes. Footnotes are easily lost and we suggest that the content thereof is either included in the body of the report, or that it is excluded altogether, as it is unnecessarily repetitive.

### **3. Do you agree with the content of proposed Part 10 and related conforming amendments\b. Agree with Comments\Conforming Amendments - Glossary of Terms and Definitions**

#### **3. Regulators and Audit Oversight Authorities**

##### **Committee of European Auditing Oversight Bodies (CEAOB)**

###### **Glossary of terms**

The definition of a component is not fully consistent with the definition in footnote 3 of the ED. It should be clarified that a component is determined by the auditor responsible for the group audit.

We question whether a definition of component auditor is required in the context of the general prohibition on their use. If this definition is retained, a cross reference to paragraph A.1(d)(ii) should be inserted to clarify that the use of component auditors is only permitted in very limited circumstances. Otherwise, it will not be clear why group auditor, group audit opinion and group engagement partner are not defined as is the case in ISA 600 (Revised).

## **Irish Auditing and Accounting Supervisory Authority (IAASA)**

###### **Glossary of Terms**

The definition of a component is not fully consistent with the definition in footnote 3 of the ED. It should be clarified that a component is determined by the auditor responsible for the group audit.

We question whether a definition of component auditor is required in the context of the general prohibition on their use. If this definition is retained, a cross reference to paragraph A.1(d)(ii) should be inserted to clarify that the use of component auditors is only permitted in very limited circumstances.

### **5. Accounting Firms**

#### **Grant Thornton International Limited**

###### **Conforming Amendments**

We believe that the following application guidance concerning certain definitions in ISA 600 (Revised) should be included in the ISA for LCE as essential explanatory material to facilitate its consistent application across all standards:

- Definition of component - ISA 600 (Revised), paragraph A20, which explains that the group auditor uses professional judgment in determining components at which audit work will be performed, and that the identification and assessment of the risks of material misstatement of the group financial statements encompasses all of the entities and business units whose financial information is included in the group financial statements.
- Definition of component auditor –ISA 600 (Revised), paragraphs A21 – A23, which clarify the members of the engagement team that are considered component auditors.
- Definition of component management –ISA 600 (Revised), paragraph A24 explains who is part of component management, including situations where there may not be separate component management and group management may be directly responsible for the financial information of the component.

### **3. Do you agree with the content of proposed Part 10 and related conforming amendments\b. Agree with Comments\Conforming Amendments - Preface**

#### **4. National Auditing Standard Setters**

##### **Hong Kong Institute of Certified Public Accountants (HKICPA)**

###### **Preface ISA for LCE**

For the addition to paragraph P.12. of the Preface, to stress the application of Part 10 in a group audit engagement, one of our stakeholders suggests changing “special considerations” to “additional considerations”:

P.12. The [draft] ISA for LCE includes:

...

Part 10, which sets out ~~special~~ **additional** considerations that apply to an audit of group financial statements (a group audit). When the ISA for LCE applies to a group audit, the requirements and guidance in Part 10 refer to, or expand on the application of other relevant parts of the ISA for LCE to a group audit.

We understand that the use of “special considerations” would align with the title and terms used in ISA 600 (Revised). Accordingly, we would leave the above comment for the IAASB to consider.

### **3. Do you agree with the content of proposed Part 10 and related conforming amendments\b. Agree with Comments\Other Comments**

#### **3. Regulators and Audit Oversight Authorities**

##### **Independent Regulatory Board for Auditors – South Africa (IRBA)**

Response

We support the presentation of the group audit requirements in a separate section of the future LCE standard (Part 10). However, similar to our comments raised on the Exposure Draft: ISA for LCE, this Part 10 on its own does not provide sufficient information for it to be read as a standalone standard. As it is currently drafted, the requirements of ISA 600 (Revised) would need to be considered/referred to, if a user does not have a working knowledge of ISA 600 (Revised), which then takes away from the intention of creating a separate standard. We therefore suggest that Part 10 of the future LCE standard be mapped to ISA 600 (Revised), to ensure that all aspects relating to group audits are addressed in it. Furthermore, the proposed Part 10 is silent on the treatment of groups where other structures could form part of a group, i.e. associates, joint ventures and joint operations (refer to our response to question 1). If these other structures are considered to be included within the scope of the future LCE standard, additional guidance would be required, for example, in relation to the determination of component performance materiality (refer to paragraph A119 of ISA 600 (Revised)). The aim of the future LCE standard is to simplify the auditing of less complex groups and reduce the extent of the audit work, due to the lower risk involved. However, the proposed materiality section, for example, does not reflect this, as it remains the same for a more complex group. By incorporating the ISA 600 (Revised) requirements without any substantive simplification, the future LCE standard would not yield any significant benefit in terms of time, cost and efficiencies. As such, the current draft may not sufficiently meet the needs of auditors.

#### **4. National Auditing Standard Setters**

##### **American Institute of Certified Public Accountants (AICPA)**

Response 3: We agree with the content of proposed Part 10 and the related conforming amendments. However, we believe that a high-level summary as to how proposed Part 10 differs from ISA 600 (Revised) should have been prepared and posted to the IAASB’s website. Such a document would have assisted respondents in performing a complete review of the proposed Part 10 and the conforming amendments. We believe that the document should be prepared and presented as part of the agenda materials when the IAASB is asked to consider the comments received on the exposure draft because it would assist the IAASB members as they consider the appropriateness of the proposed Part 10 and related amendments.

##### **Compagnie Nationale des Commissaires aux Comptes (CNCC) and Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)**

Yes, we agree with the content of proposed part 10 and related conforming amendments.

However, we have two comments:

Nowhere in section 10 is there any reference to the auditor’s report. We suggest taking the text of the foot note 2 of page 21 of the ED, that relates to Part 9 of the extent ED ISA for LCEs and inserting it in section 10 as a requirement between 10.7 and 10.8.

Nowhere is it mentioned in section 10 that if the auditor becomes aware that he is not in the circumstances of a less complex group anymore (for example if he realizes that he needs to involve a component auditor when he did not expect to), he should revert to the full ISAs. We suggest inserting in section 10 a paragraph equivalent to paragraph 6.5.11 of the extent ED ISA for LCEs.

#### **5. Accounting Firms**

##### **Ernst & Young Global Limited**

We believe that additional EEM for evaluating the sufficiency and appropriateness of audit evidence obtained should be included in ED-ISA for LCE Part 10 (a new section will need to be created). There are different considerations around the sufficiency and appropriateness of audit evidence within a group audit context. A group auditor needs to evaluate whether sufficient appropriate audit evidence has been obtained from the audit work performed on components, on which to base a group audit opinion.

Additionally, the group auditor needs to evaluate the effect on the group audit opinion of any uncorrected misstatements and any instances when there has been an inability to obtain sufficient appropriate audit evidence (refer to ISA 600 (Revised) paragraph 13(d), ISA 600 (Revised) paragraph 51 and ISA 600 (Revised) paragraph 52).

## KPMG IFRG Limited

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.

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.

## Mazars

When considering the proposed “Part 10 – Audit of Group Financial Statements,” there is no reference to the prohibition and/or the limited circumstances when the standard may be applicable for group audits. We believe it may be easily missed by auditors and a reference (to Part 3) in Part 10, alerting the auditor to the limited use of the ISA for LCE’s for group audits, may be helpful.

## RSM International

Yes, we agree with the content of proposed Part 10 and related conforming amendments.

However, its application will be subject to the same questions and concerns that we expressed in our comment letter on ED ISA-LCE dated 31 January 2022 regarding the applicability of the proposed standard.

## 7. Member Bodies and Other Professional Organizations

### Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (CNDCEC)

Finally, with reference to the determination of the component performance materiality, we think an illustrative example would be helpful.

## EXPERTsuisse

We generally agree with the content of proposed Part 10 and related conforming amendments, but we do not see the real simplifications in the audit process for less complex group audits in comparison to complex group audits, especially when the scope to use the standard would be so narrow as (implicitly) proposed.

### Institute of Chartered Accountants in England and Wales (ICAEW)

IAASB should consider including additional guidance, similar to the guidance in paragraph 48 of the supplementary guidance exposed, to the effect that if it is found that the standard is inappropriate at the continuance phase or during the audit, because the group has become complex, the audit will need to be transitioned to the ISAs.

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

#### **6. Public Sector Organizations**

##### **Office of the Auditor General of Alberta**

As noted in the Section 1 of the July 2021 Exposure Draft of Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ED-ISA for LCE), “It is estimated that more than 90% of entities across the world are small and medium-sized entities...” We have significant concerns that ED-ISA for LCE and ED-Proposed Part 10 will not be applicable for the majority of these entities due to the prohibitions placed on when ISA for LCE applies and the breadth of requirements. In our view, ISA for LCE should have significantly less breadth than ISA for More Complex Entities, yet still provide a reasonable level of assurance. The exposure drafts appear to have maintained most of the ISA requirements and therefore the risk of ISA for LCE not achieving efficiencies and not being adopted appears high. One method to lower this risk is to use a complete principles-based standard for ISA for LCE versus a rules-based standard (“shall”). Using such an approach would permit the auditor to select which procedures are required to meet an objective in comparison with all procedures being required. We are not suggesting the IAASB remove all the “shalls” for ISA for LCE, but review the requirements and consider when “should” or “considers” may be applicable for individual ISA for LCE’s. This approach would have some similarities to ISAE 3000 or ISSA 5000 as currently being drafted, particularly Work Already Performed by Another Practitioner (per 20230320 Agenda Item 4-B Proposed ISSA 5000, paragraph 28).

##### **US Government Accountability Office**

We do not agree with including part 10 in the proposed ISA for LCEs, as group audit by its nature is a type of engagement that is not less complex. The structure of part 10 demonstrates in multiple places that complexity exists in group audits, even as identified for a LCE group audit. For example, the risk of material misstatement due to fraud has increased complexity because of the need to consider members of the group in the evaluation. In addition, the consolidation process in part 10 does not convey that the consolidation should be simple or basic and shows that it is instead a complicating factor in the audit.

Also, while component auditors are to be included only in limited circumstances, there is no discussion in part 10 of the appropriate application or consideration of a component auditor. We believe that if use of component auditors is allowed, in any way, then part 10 should include a section discussing their use.

#### **9. Individuals and Others**

##### **John Kelly**

Part 10 is complex, so no.