

## Preliminary observations

- A. 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.
- B. 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.
- C. 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.
- D. 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.
- E. 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.
- F. 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.
- G. 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.
- H. 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.

## Your questions

1. In the Authority, do you 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?

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.

2. In the Authority, do you agree with the proposed group-specific qualitative characteristics to describe the scope of group audits for which the proposed ISA for LCE is designed to be used?

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?

Part 10 is complex, so no.