



The Chairman

IAASB  
International Auditing and Assurance Standards Board  
529 5th Avenue  
New York, NY 10017  
USA

28 April 2023

**Re: IAASB 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 LCE)**

Dear Sirs:

Assirevi is the association of the Italian audit firms. Its member firms represent the vast majority of the audit firms licensed to audit companies listed on the Italian stock exchange and other public interest entities in Italy, under the supervision of CONSOB (*Commissione Nazionale per le Società e la Borsa*).

Assirevi promotes technical research in the field of auditing and accounting and publishes technical guidelines for the benefit of its members. It collaborates with CONSOB, the Italian accounting profession and other bodies in developing auditing and accounting standards.

Assirevi is pleased to submit its comments on 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 LCE)” issued by IAASB in January 2023.

Our detailed comments are set out in the attached document.

Should you wish to discuss our comments please do not hesitate to contact us.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Gianmario Crescentino".

Gianmario Crescentino  
Chairman

(Enclosure)

## COMMENTS ON THE IAASB EXPOSURE DRAFT

*Re: IAASB 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 LCE)*

*(January 2023)*

### **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?**

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.

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).

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.

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

## **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?**

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;
- 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;
- 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).

### **3. Do you agree with the content of proposed Part 10 and related conforming amendments?**

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.

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.