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Tom Seidenstein
Chair
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York NY 10017
United States of America

28 April 2023

Dear Mr Seidenstein,

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) and Proposed Conforming Amendments

RSM International Limited, a worldwide network of independent audit, tax and consulting firms focused on serving the middle market, appreciates the opportunity to comment on the IAASB's 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) and Proposed Conforming Amendments.

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.

If you have any questions regarding our comments, please contact Steve Whitcher (steve.whitcher@rsm.global) or me at (marion.hannon@rsm.global).

Yours sincerely,



Marion Hannon
Global Leader, Quality & Risk

Comments

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?

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.

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?

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.

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.

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

Yes, we agree with the content of proposed Part 10 and related conforming amendments.

However, it's 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.