



IAASB - International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, 10017
USA

2 May 2023

Re: Comment letter relating to the IAASB's Exposure Draft of Proposed Part 10, Audits of Group Financial Statements of the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities and Proposed Conforming Amendments

Dear Mr. Seidenstein,

1. The Committee of European Audit Oversight Bodies (CEAOB) appreciates the opportunity to comment on the IAASB's consultation on the Exposure Draft of 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 (the ED) issued in January 2023. As the organisation representing the audit regulators of the European Union and the European Economic Area, the CEOB encourages and supports continuing improvement of professional standards for the audit profession.
2. The content of this letter was prepared by the CEOB International Auditing Standards Subgroup and adopted by the CEOB. The comments raised in the letter reflect matters agreed within the CEOB. It is not intended, however, to include all comments that might be provided by the individual regulators that are CEOB members and their respective jurisdictions.
3. This response is in addition to the concerns and comments on the IAASB's Exposure Draft of the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities set out in our letter dated 24 January 2022.

Overall comments and concerns

4. In its letter dated 24 January 2022, the CEOB 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 CEOB, as detailed below and in our letter of 24 January 2022.
5. We continue to stress that the CEOB 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.
6. 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.

7. 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.
8. 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.**
9. 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.
10. 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.
11. 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.

Proposed additions to the Authority

Specific prohibitions

12. 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.
13. 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.
14. 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.
15. 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.
16. 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.
17. 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.



Qualitative characteristics

18. 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.
19. 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.
20. 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.
21. 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.

Proposed Part 10

Planning activities

22. 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.
23. 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.
24. 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).

Specific documentation requirements

25. 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.

General comment

26. 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".

Glossary of terms

27. 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.



28. 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).

Conclusion

29. **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.

Please do not hesitate to contact me or the Chair of the CEAOB International Auditing Standards Sub-group should you have any questions on the content of this letter.

Yours faithfully,

Patrick Parent
Chairman