

International Auditing and Assurance Standards Board
International Federation of Accountants
529 Fifth Avenue
New York, NY 10017

May 2, 2023

Via IAASB website at www.iaasb.org

Dear Board Members and Staff:

Grant Thornton International Ltd appreciates the opportunity to provide input on the International Auditing and Assurance Standard Board's (IAASB) 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 or 'the standard') and Proposed Conforming Amendments.

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 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 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.

We attach our detailed responses to the questions posed regarding Proposed Part 10 and the Proposed Conforming Amendments arising therefrom. We would be pleased to discuss our comments with you. If you have any questions, please contact Sara Ashton at sara.ashton@gti.gt.com or at +1 331 213 2523.

Sincerely,



R. Trent Gazzaway
Global Head - Quality
Grant Thornton International Ltd

Enc: Responses to 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

Responses to 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

The following provides our detailed response to the IAASB's request for comments to 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.

SPECIFIC QUESTIONS

Q1. 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 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.

Q2. 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 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.

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.

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.

Q3. Do you agree with the content of proposed Part 10 and related conforming amendments?

Part 10

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)¹.
- 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.
- 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.

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

¹ ISA 600 (Revised), *Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)*

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.