

May 2, 2023

IFAC Small and Medium Practices Advisory Group Response 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 (ISA for LCE)*

INTRODUCTION

The IFAC SMP Advisory Group (SMPAG) is pleased to respond to the IAASB (the Board) 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 LCEs)*. The SMPAG is charged with identifying and representing the needs of its constituents and, where applicable, to consider relevant issues pertaining to small- and medium-sized entities (SMEs). The constituents of the SMPAG are small- and medium-sized practices (SMPs) who provide accounting, auditing, assurance, and business advisory services principally, but not exclusively, to clients who are SMEs. Members and Technical Advisers serving the SMPAG are drawn from IFAC member organizations representing 25 countries from all regions of the world.

GENERAL COMMENTS

As the IAASB will be aware, in its [response](#) to the ISA for LCE Exposure Draft and in multiple other letters, the SMPAG raised strong concerns in relation to group audits being excluded from the standard and the impact this could have on severely limiting its use. We therefore welcome the IAASB reconsidering its decision and developing proposals that address audits of less complex groups. We also support the inclusion as a separate Part 10.

However, we do not agree with the prohibition on the involvement of component auditors to be limited to circumstances in which a physical presence is needed. We believe that the standard should be principles-based and allow for more judgment on the complexity of the entity.

This project is extremely important to SMPs, and we encourage the Board to continue to prioritize the finalization of the standard in accordance with the proposed timetable of September 2023.

DETAILED COMMENTS

We have outlined our responses to the questions (in bold) below.

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?

The SMPAG does not 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 believe that the use of component auditors should be principles-based and allow for more judgment.

Component auditors are often used in practice for many reasons (i.e., it is not just limited to more complex groups) and the use of the "bright line" prohibition is likely to significantly impact the use of ISA for LCEs in some jurisdictions, where otherwise the LCE group would meet all the qualitative characteristics and

specified criteria. For instance, it currently means that an LCE group would still be subject to the ISAs if it has a component auditor, even if the component itself is small and non-complex and its results do not materially impact the consolidated financial statements, which seems illogical. Moreover, for some less complex group engagements, the number of staff involved can be small and it is straightforward for the component auditors to be part of the engagement team, so it seems impractical for such engagements to still be subject to the ISAs. We suggest the exemption is broadened.

We understand that the IAASB is attempting to take a pragmatic approach, which aids consistency and application of the standard, but in our view, this does not align with the concept that the ISA for LCEs is based on the core requirements of the relevant ISAs. Moreover, the reference to “physical presence” may date the standard given technology advancements, particularly with inventory counts.

The SMPAG is also concerned about potential unintended consequences of the exemption on SMPs who could be less often engaged to act as component auditors. This would impact the audit market as SMPs may ultimately exit the market, resulting in enhanced market concentration issues, which is not in the public interest.

Should the IAASB continue with the proposed prohibition, we strongly encourage the Board to initiate an early post-implementation review, which should focus on what impact/ effect the current group audit scope has had on the overall application of the ISA for LCEs.

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 generally agree with the proposed group-specific qualitative characteristics to describe the scope of group audits, but do not support the use of the quantitative thresholds as examples. These are purely arbitrary, and we are concerned that in practice these could be used by regulators as more than examples, which would result in the questioning of practitioners on how they have justified applying the standard. For example, if the group has 6 business units and is non-complex. We do not believe the numbers are needed, or are globally applicable, if practitioners are making their own principles-based judgment.

We understand that it is not the intention that if entity does not meet one qualitative characteristics it is unable to use ISA for LCEs but believe this could be made clearer. For example, we are concerned that the second bullet on the consolidation process “*All entities or business units have the same financial reporting period-end as that used for group financial reporting*” could be interpreted as applying even when entities or business units have different period-ends and are judged to be immaterial or non-substantial to the group. In our view, these would not necessarily involve much complexity and could be covered by a similar requirement to ISA 600 (Revised)¹ para. 40 where the group auditor takes responsibility for evaluating whether appropriate adjustments have been made.

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

Subject to our comments in response to question 1, we agree with the content of proposed Part 10 and the related conforming amendments.

We recognize that should the IAASB decide to change the scope of when component auditors are involved, this would require further consideration of the material in proposed Part 10 related to the involvement of component auditors.

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

CONCLUDING COMMENTS

We hope that the IAASB finds this letter useful. We are committed to helping the Board in whatever way we can as it finalizes the ISA for LCEs.

Please do not hesitate to contact me should you wish to discuss matters raised in this submission.

Sincerely,

Monica Foerster

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Chair, SMPAG