

OPTIONAL RESPONSE TEMPLATE: PROPOSED ISA FOR LCE

Guide for Respondents

- The International Auditing and Assurance Standards Board (IAASB) has published this separate Microsoft Word document for respondents to use for submitting their comments, if they wish. The questions below are from the exposure draft of proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities Management (ED-ISA for LCE), which is available at www.iaasb.org/publications/exposure-draft-proposed-international-standard-auditing-financial-statements-less-complex-entities.
- Respondents are asked to comment on the clarity, understandability and practicality of application of ED-ISA for LCE. In this regard, comments will be most helpful if specific aspects of ED-ISA for LCE are identified and the reasons for any concerns along with suggestions for improvement, are included. Specific suggestions for any proposed changes to wording in ED-ISA for LCE are also welcome.
- **Respondents are free to address only questions relevant to them, or all questions.** When a respondent agrees with the proposals in ED-ISA for LCE, it will be helpful for the IAASB to be made aware of this view as support for the IAASB’s proposals cannot always be inferred when not explicitly stated.
- We request that comment letters do not include tables as they are incompatible with the software we use to help analyze respondents’ comments.

Comments are requested by January 31, 2022

Name of Respondent:

Paul Thompson

Organization (*where relevant*):

European Federation for Accountants and Auditors for SMEs (EFAA)

Country/Region/Jurisdiction:

Europe

General Comments on Proposed ISA for LCE

Response:

Our key points are as follows:

- We strongly support this project. Furthermore, we urge the IAASB to also reengineer the ISAs using a 'Think Small First' approach. While we welcome the Complexity, Understandability, Scalability and Proportionality (CUSP) project, we believe it currently lacks ambition.
- We are keen to see the standard issued sooner rather than later. We feel timeliness is vital: the pursuit of perfection can be the enemy of progress.
- The standard has the potential to drive standardization and consistency of SME audits across Europe. This may aid users understanding as to what the SME audit provides.
- Overall, we agree with the fundamental principles, design, and content of the standard. We especially like the way it follows the logical flow of the audit.
- We are somewhat concerned at the risk of the emergence of two-tier audit market and two-tier audit profession – one using ISAs and another ISA for LCE with users seeing latter as offering inferior quality. This may confuse users and undermine their confidence in audits. The IAASB, IFAC, professional accountancy organizations (PAOs), regulators, accounting firms and others will need to communicate to and educate the audit market to mitigate this risk.
- Similarly, it is vital that the communications and educational activities of the IAASB, IFAC, PAOs, regulators, accounting firms and others on and around the new standard consistently and robustly stress that use of this standard results in an audit of equivalent quality to an audit performed using the ISAs. Every effort needs to be taken to avoid giving the impression that the standard is less rigorous than the ISAs, rather it is a standard tailored to fit different types of entity.
- We have some reservations as to Authority:
 - the audit of group financial statements ought to be scoped in – many groups are less complex and, furthermore, if groups are scoped out then this will significantly limit the extent to which the standard can be used *and* many LCEs forming part of a group may have to conduct audits in accordance with the full ISAs; and
 - the LCE concept with its qualitative criteria will be difficult to implement and may result in inconsistent application – we prefer size criteria to have more prominence.
- There is an urgent need for more support and guidance. We recognize the huge training and education effort needed for the effective implementation of the standard. This is the joint responsibility of the Board, IFAC, PAOs and others. We therefore encourage the Board to collaborate with IFAC in developing appropriate support and guidance. We urge IFAC to consider producing a Guide to the Use of ISA for LCEs, emulating its 'Guide to Using ISAs in the Audits of SMEs' ('ISA Guide').
- We also urge the Board and IFAC to look at ways of placing the standard and guidance onto a common digital platform such that users can easily find the relevant requirements and supporting guidance. e-International Standards (eIS) may provide this platform.

Specific Questions

Section 4A – Overarching Positioning of ED-ISA for LCE

1. Views are sought on:

- (a) The standalone nature of the proposed standard, including detailing any areas of concern in applying the proposed standard, or possible obstacles that may impair this approach?

Response:

We agree with the standalone nature of the proposed standard.

A similar approach to the one being proposed has been adopted and used by the IASB for its for IFRS for SMEs. IFRS for SMEs is not widely used in the European Union ('EU'). Notwithstanding this we urge the Board, if it has not already, to liaise with the IASB regarding ongoing deliberations on the standalone status of its IFRS for SMEs.

In cases where the LCE standard does not specifically address a transaction, other event, or condition we wonder whether the auditor may use their judgment to decide how best to proceed and, in making this judgment, whether the auditor may also consider the requirements and guidance in the full ISAs dealing with similar and related issues. This is permitted under IFRS for SMEs. Similarly, we wonder whether auditors using the LCE standard will be allowed to use full ISA requirements or application material in case they wish to voluntarily perform additional audit procedures.

- (b) The title of the proposed standard.

Response:

The proposed title is appropriate.

However, if, as we suggest below, the main criteria for the determination as to scope ends up being size then we suggest International Standard on Auditing (ISA) for Audits of Financial Statements of Small and Medium-sized Entities ('ISA for SMEs') in much the same way we have IFRS for SMEs.

- (c) Any other matters related to ED-ISA for LCE as discussed in this section (Section 4A).

Response:

We believe there to be a significant challenge in promoting and positioning the standard to the market.

It is vital that the communications by the IAASB, professional accountancy organizations (PAOs), regulators, accounting firms and other on and around the new standard consistently and robustly stress that use of this standard results in an audit of equivalent quality to an audit performed using the ISAs. Every effort needs to be taken to avoid giving the impression that the standard is less rigorous than the ISAs, rather it is a standard tailored to fit different types of entity.

2. Do you agree with the proposed conforming amendments to the IAASB Preface (see paragraphs 39-40)? If not, why not, and what further changes may be needed?

Response:

We agree with the proposed conforming amendments to the IAASB Preface.

Section 4B – Authority of the Standard

3. Views are sought on the Authority (or scope) of ED-ISA for LCE (Part A of the proposed standard). In particular:

(a) Is the Authority as presented implementable? If not, why not?

Response:

We believe that the Authority as presented is implementable *in large part*.

The diagram explaining the limitations in paragraph 50 is generally logical and workable, albeit somewhat complex at first sight. We do, however, have some concerns and doubts as to whether the proposed limitations relating to qualitative criteria are implementable. We elaborate further in our response to Q4.

(b) Are there unintended consequences that could arise that the IAASB has not yet considered?

Response:

We are not aware of any unintended consequences that could arise.

(c) Are there specific areas within the Authority that are not clear?

Response:

We believe the Authority to be clear but, as we explain in our response to Q4, may prove difficult to implement in the case of the qualitative criteria.

(d) Will the Authority, as set out, achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard?

Response:

We believe the Authority achieves the intended objective of appropriately informing stakeholders about the scoping of the proposed standard.

While the diagram in paragraph 50 (paragraphs A.5. – A.9. in ED-ISA for LCE) initially appears somewhat complex it is logical and informative to the dedicated reader.

(e) Is the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions clear and appropriate?

Response: Response:

We believe the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions to be clear and appropriate.

In the European Union ('EU') the Directives are the highest source of authority. As far as we know the Directives do not appear to preclude individual Member States ('MS') from unilaterally adopting the standard.

4. Do you agree with the proposed limitations relating to the use of ED-ISA for LCE? If not, why and what changes (clarifications, additions or other amendments) need to be made? Please distinguish your response between the:

(a) Specific prohibitions; and

(b) Qualitative characteristics.

If you provide comments in relation to the specific prohibitions or qualitative characteristics, it will be helpful to clearly indicate the specific item(s) which your comments relate to and, in the case of additions (completeness), be specific about the item(s) that you believe should be added and your reasons.

Response:

We agree with the proposed limitations relating to the use of the ED-ISA for LCEs except as explained below.

Specific prohibitions – we agree with these except for the exclusion of audits of group financial statements. Groups are not necessarily more complex than individual entities. This is especially the case in the following situations: where the management and ownership are concentrated in the hands of very few people; where all the components are operating in the same jurisdiction; where all components are auditing by the same audit team; where the applicable financial reporting framework is straightforward; and where the group has just one subsidiary that holds a property or single large asset. Furthermore, if groups are scoped out then many LCEs that are part of a group may be required to conduct audits in accordance with full ISAs. We also note that the closest equivalent to this standard in the financial reporting world is the IFRS for SMEs and this scopes in both consolidated and separate financial statements. Hence, we suggest that groups be scoped in.

Qualitative characteristics – there are many of these and inevitably their application will be highly subjective. While we appreciate the effort taken to develop, articulate and describe these criteria we suspect the degree of subjectivity may mean they are not implementable. While the LCE concept is conceptually appealing and in keeping with the notion that ISAs underpin a risk-based audit LCE has many drawbacks. LCE is a new and unproven concept. LCE is not a sector. LCE is highly subjective and hard to define. Quantitative criteria are needed to supplement or supersede qualitative.

We note that the ED (paragraph 64) says that the IAASB debated the use of quantitative or other exemption thresholds or more specific criteria to scope the standard but “agreed that it would not be practicable for the IAASB to define exemption thresholds or other criteria about what may constitute an audit of an LCE that would be capable of consistent global application because of, for example, the varying sizes of economies and sophistication of jurisdictions.” We have a different opinion.

We suspect there is a strong correlation between size and complexity. *Ceteris paribus* small entities are less complex than large. For example, all banks are perhaps complex relative to other types of business entity, but a small local bank is less complex than a large international one. Similarly, a multi-national supermarket chain will be much more complex than a corner shop. Furthermore, we suspect that most SMEs share the qualitative characteristics. Size criteria are objective, recognizable, understandable, and, in many jurisdictions, is a tried and tested approach. In the EU size thresholds have been used successfully for many years in policy and regulation including in the field of accounting and auditing.

We therefore urge the IAASB to reconsider the role of size criteria. We see merit in explicitly including size as quantitative criteria – and provide some guidance as to how thresholds can be determined at jurisdiction level e.g., relative to mean or median sizes of companies in that jurisdiction or else using thresholds already commonly used in that jurisdiction. Furthermore, the IAASB might wish to explicitly state that all SMEs, defined according to size criteria decided at national level, are automatically considered as LCE unless there is strong evidence to the contrary, such as they exhibit a characteristic that indicates they are complex. Hence, we wonder whether there should be a rebuttable assumption that all companies that meet regionally or nationally determined size criteria are classified as less complex and as such eligible for using the standard.

If the IAASB sticks with the qualitative criteria we suspect many national standard setters and regulators in Europe will, to the extent to which EU Directives allow, apply simple size criteria instead

or as well as the qualitative criteria. Guidance to help them do so with a degree of consistency from one jurisdiction to another would be welcome.

5. Regarding the Authority Supplemental Guide:

(a) Is the guide helpful in understanding the Authority? If not, why not?

Response:

We believe the guide is very helpful in understanding the Authority.

The guide is in fact essential given the multiple facets to Authority as summarized in the diagram in paragraph 50.

If, as we suggest, the IAASB determines that size criteria be the main or overriding criteria for the determination as to the scope of the standard then parts of this guide will be superfluous. And if it does not there will still be a case to provide some guidance as to how individual jurisdictions can go about the determination on appropriate size thresholds.

(b) Are there other matters that should be included in the guide?

Response:

We have no suggestions as to other matters that should be included in the guide except as mentioned in our response to 5 (a) guidance on establishing appropriate size thresholds.

6. Are there any other matters related to the Authority that the IAASB should consider as it progresses ED-ISA for LCE to finalization?

Response:

We have some observations regarding the perception of audit quality.

It is vital that audits conducted in accordance with the new standard will be widely perceived and recognized as producing an audit that is of the same high quality as that of an audit using the full ISAs. This will demand a universal, consistent, and robust information campaign from all authoritative sources. All communication – from regulators, standard setters, firms, professional accountancy organizations etc. – will need to stress this equivalence. We suggest the Board learn from the experience of the IASB with its IFRS for SMEs. In those jurisdictions, such as the UK, that use the standard in some way, we are not aware of concerns that financial reports prepared using the standard provided information less useful than that prepared using full IFRS.

Section 4C – Key Principles Used in Developing ED-ISA for LCE

7. Views are sought on the key principles used in developing ED-ISA for LCE as set out in this Section 4C. Please structure your response as follows:

(a) The approach to how the ISA requirements have been incorporated in the proposed standard (see paragraphs 74-77).

Response:

We are agreeable with the approach to how the ISA requirements have been incorporated in the proposed standard.

We must be wary of having too many requirements that undermine the simplicity and scalability of the standard. Over the years we have seen one requirement after another, typically in isolation perceived as being relatively innocuous, being added to the ISAs such that eventually ‘the straw

broke the camel's back'. This must be avoided at the initial development stage (now) and during ongoing maintenance.

(b) The approach to the objectives of each Part of the proposed standard (see paragraphs 78-80).

Response:

We agree with this approach.

(c) The principles in relation to professional skepticism and professional judgement, relevant ethical requirements, and quality management (see paragraphs 81-84).

Response:

We agree with the inclusion of these principles.

(d) The approach to EEM (see paragraphs 85–91) including:

- (i) The content of the EEM, including whether it serves the purpose for which it is intended.
- (ii) The sufficiency of EEM.
- (iii) The way the EEM has been presented within the proposed standard.

Response:

We broadly agree with the approach to EEM including content, sufficiency, and its presentation.

We do, however, have some concerns.

First, we wonder whether the purpose and status of the EEM is clear. ISA 200 states that the whole text of an ISA, including the application material, is relevant for understanding the objectives of the ISA and the appropriate application of the requirements of an ISA. It is not clear whether EEM has the same purpose and status. We recommend this be clarified.

Second, the content of the EEM is sometimes quite complicated and lengthy. We recommend further efforts to reduce and simplify.

Third, the presentation of EEM, between and after the requirements, is somewhat confusing. We recommend presenting them in a uniform way after the requirements.

Finally, we have a few general remarks as it relates to guidance and explanatory material. The IAASB is a standard setter and needs to focus on developing and maintaining high quality standards that are implementable. It also has a role to play in promoting adoption and facilitating the development of implementation material and guidance. The standard, quite rightly, does not include guidance as such. Guidance for the most part is best left out of the standards and included in separate non-authoritative documents produced by PAOs and others. We urge IFAC to consider producing a Guide to the Use of ISA for LCEs, emulating its 'Guide to Using ISAs in the Audits of SMEs' ('ISA Guide').

Section 4D – Overall Design and Structure of ED-ISA for LCE

8. Please provide your views on the overall design and structure of ED-ISA for LCE, including where relevant, on the application of the drafting principles (paragraph 98-101).

Response:

We welcome the overall design and structure.

We believe the design and structure to be logical and effective. Indeed, in following the flow of the audit, in contrast to the full ISAs that are organized topic by topic, the standard is more easily read and understood and emulates the structure commonly and successfully used in implementation material, such as the IFAC ISA Guide. Moreover, those developing implementation material can follow the same or similar structure.

We also urge the Board and IFAC to look at ways of placing the standard and guidance onto a common digital platform such that users can easily find the relevant requirements and supporting guidance. e-International Standards (eIS) may provide this platform.

Section 4E – Content of ED-ISA for LCE

9. Please provide your views on the content of each of **Parts 1 through 8** of ED-ISA for LCE, including the completeness of each part. In responding to this question, please distinguish your comments by using a subheading for each of the Parts of the proposed standard.

Response:

We believe the content to be robust, proportionate, and complete.

We have not systematically and comprehensively examined the content. Rather we have reviewed the content to get a general sense of its appropriateness. Furthermore, we are confident that the robust process followed in developing the standard will result in a high-quality standard that is accurate and complete.

Notwithstanding this, our review has revealed the existence of some complicated and lengthy sentences that are 'lifted' almost verbatim from the ISAs. We recommend simplifying and shortening these sentences.

10. For **Part 9**, do you agree with the approach taken in ED-ISA for LCE with regard to auditor reporting requirements, including:
- (a) The presentation, content and completeness of Part 9.
 - (b) The approach to include a specified format and content of an unmodified auditor's report as a requirement?
 - (c) The approach to providing example auditor's reports in the Reporting Supplemental Guide.

Response:

We agree with the approach taken for auditor reporting requirements.

We welcome the fact that the section 'Basis for Opinion' makes it clear that the audit is performed in accordance with the ISA for LCE standard.

11. With regard to the Reporting Supplemental Guide:
- (a) Is the support material helpful, and if not, why not?

Response:

We find the Reporting Supplemental Guide helpful.

Indeed, guidance of this nature, outside the body of the standard is especially helpful and in time support material might extend to most if not all aspects of the standard in the way that the IFAC ISA Guide does for the ISAs.

(b) Are there any other matters that should be included in relation to reporting?

Response:

We do not any other matters in relation to reporting, other than in relation to audit of group financial statements, should be included.

12. Are there any areas within Parts 1–9 of the proposed standard where, in your view, the standard can be improved? If so, provide your reasons and describe any such improvements. It will be helpful if you clearly indicate the specific Part(s) which your comments relate to.

Response:

We do not believe that any area can be improved upon.

As noted above, we have not systematically and comprehensively examined the content. Rather we have glanced through the content to get a general sense of its appropriateness. Furthermore, we are confident that the robust process followed in developing the standard has resulted in a high-quality standard that is accurate and complete.

Section 4F – Other Matters

13. Please provide your views on transitioning:

(a) Are there any aspects of the proposed standard, further to what has been described above, that may create challenges for transitioning to the ISAs?

Response:

We recognize the challenges of transitioning.

Challenges for transitioning work in both directions, both *to* and *from* the new standard. Section 4F focuses on *from* the ISA for LCEs. We welcome, Section 4.6. Initial Audit Engagements of the standard. In the initial years after the new standard takes effect, we expect some, maybe many, jurisdictions to adopt the standard, or least encourage its use, and many thousands of LCEs will *either* be transitioning from having no audit, and so no audit standard(s), to the ISA for LCEs, *or* from the ISAs *or* from national audit standard. In other words, there will be many entities and their auditors having to address first time use of the new standard, many the first-time use of any audit standard. Over time as the new standard gets well established and is widely used, the number of LCEs transitioning to the new standard will decline.

Similarly in subsequent later years we expect to see LCEs either become complex or otherwise not eligible to continue using the standard and so having to transition to the ISAs. Section 4F seems to adequately deal with this direction of transition.

We have one concern. A single new element of complexity may cause an entity to no longer be classified as LCE, causing the auditor to have to transition to the full site of ISAs. This will create a burden that may be difficult to explain to an audited entity. Our suggestion above to lend more weight to size criteria might avoid the need for transition in these circumstances.

(b) What support materials would assist in addressing these challenges?

Response:

We believe no further guidance may be necessary.

14. Do you agree with the proposed approach to the future updates and maintenance of the Standard and related supplemental guidance?

Response:

We agree with the proposed approach to the future updates and maintenance of the Standard and related supplemental guidance.

The approach strikes an appropriate balance between having a relatively stable platform and ensuring the standard reflects prevailing best practice.

15. For any subsequent revisions to the standard once effective, should early adoption be allowed? If not, why not?

Response:

We encourage using the same approach as is used for the ISAs that is, allowing early adoption.

16. Should a separate Part on the ISA-800 series be included within ED-ISA for LCE? Please provide reasons for your response.

Response:

We see limited, if any, need for a separate Part on the ISA-800 series.

17. In your view, would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion and for which the proposed standard has been developed? If not, why not. Please structure your comments to this question as follows:

- (a) Whether the proposed standard can, and will, be used in your jurisdiction.

Response:

We believe EU Member States ('MS') can and will use the standard.

EU regulation generally supersedes national law. However, in the case of the audit of SMEs, most of which we suspect will be eligible to use the standard, individual EU MS can unilaterally decide to adopt the standard. We suspect many will do so. And in those MS that do not adopt the standard into national law, we suspect some auditors will voluntarily use the standard.

- (b) Whether the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.

Response:

We believe the proposed standard effectively meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.

- (c) Whether there are aspects of the proposed standard that may create challenges for implementation (if so, how such challenges may be addressed).

Response:

We are not aware of any other aspects of the proposed standard that may create challenges for implementation, other than those challenges addressed above.

18. Are there any other matters related to ED-ISA for LCE that the IAASB should consider as it progresses the proposed standard to finalization?

Response:

We do not believe there are any other matters that the IAASB should consider in terms of the form and content of the proposed standard.

However, as we mention above, we believe there to be a significant challenge in promoting and positioning the standard to the market.

It is vital that the communications by the IAASB, professional accountancy organizations (PAOs), regulators, accounting firms and other on and around the new standard consistently and robustly stress that use of this standard results in an audit of equivalent quality to an audit performed using the ISAs. Every effort needs to be taken to avoid giving the impression that the standard is less rigorous than the ISAs, rather it is a standard tailored to fit different types of entity.

Section 4G - Approach to Consultation and Finalization

19. What support and guidance would be useful when implementing the proposed standard?

Response:

We believe there will be an urgent need for more support and guidance.

As we previously note, the standard, quite rightly, does not include guidance as such. Guidance for the most part is best left out of the standards and included in separate non-authoritative documents produced by IFAC, PAOs and others.

We recognize the considerable training and education effort needed for the effective implementation of the standard. We therefore encourage the Board to collaborate with IFAC in developing appropriate support and guidance. We urge IFAC to consider producing a Guide to the Use of ISA for LCEs, emulating its 'Guide to Using ISAs in the Audits of SMEs' ('ISA Guide').

We also urge the Board to look at ways of placing the standard and guidance onto a common digital platform such that users can easily find the relevant requirements and supporting guidance.

20. Translations—recognizing that many respondents may intend to translate the final ISA for LCE in their own environments, the IAASB welcomes comment on potential translation issues noted in reviewing ED-ISA for LCE.

Response:

We see no translation issues peculiar to this project.

This project presents the same of similar translation issues and challenges as confronted on any IAASB project. However, these challenges will likely be more acute given the volume of the standard and supplemental guidance. Furthermore, given the emphasis afforded authority and scope there is much for local regulators to read and understand.

21. Effective Date—Recognizing ISA for LCE is a new standard and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning at least 18 months after the approval of a final standard. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA for LCE.

Response:

We believe this will provide a sufficient period – albeit the bare minimum - to support effective implementation of the ISA for LCE.

We are keen to see a high-quality standard in place and effective as soon as is practicable. That said, we recognize the huge effort needed to adopt and implement the standard. In an ideal world we would welcome a longer period. But we do not have time. The need for urgency trumps the need for time to implement the standard. We must not let perfection stand in the way of progress.

Section 5 – Group Audits

22. The IAASB is looking for views on whether group audits should be excluded from (or included in) the scope of ED-ISA for LCE. Please provide reasons for your answer.

Response:

We support the inclusion of group audits as we explain above (see our response to Question 4).

23. Respondents in public practice are asked to share information about the impact of excluding group audits from the scope of ED-ISA for LCE on the use of the proposed standard. In particular:

- (a) Would you use the standard if group audits are excluded? If not, why not?

Response:

We suspect it will be adopted and used even if group audits were excluded.

However, the exclusion of groups may significantly limit the extent to which the standard is used.

- (b) Approximately what % of the audits within your firm or practice would be group audits that would likely be able to use ED-ISA for LCE (i.e., because it is likely that such group audits could be considered less complex entities for the purpose of the proposed standard) except for the specific exclusion?

Response:

We are not a firm or practice.

We suspect that for many SMPs a minority of their audits would be group audits. This proportion will likely rise from small to large minority as one moves up the scale of practice size.

- (c) What common examples of group structures and circumstances within your practice would be considered a less complex group.

Response:

We are not a firm or practice.

As mentioned above (see our response to Question 4 and 22) we believe groups are not necessarily more complex than individual entities. This is especially the case in the following situations: where the management and ownership are concentrated in the hands of very few people; where all the components are operating in the same jurisdiction; where all components are auditing by the same audit team; where the applicable financial reporting framework is straightforward; and where the group has just one subsidiary that holds a property or single large asset.

24. If group audits are to be included in the scope of ED-ISA for LCE, the IAASB is looking for views about how should be done (please provide reasons for your preferred option):

- (a) The IAASB establishes a proxy(ies) for complexity for when the proposed standard may be used ("Option 1 - see paragraph 169); or
- (b) ED-ISA for LCE sets out qualitative characteristics for complexity specific to groups (Option 2 - see paragraph 176), to help users of the proposed standard to determine themselves whether a group would meet the complexity threshold.

Response:

We have no clear preference.

Option 1 may prove to be a simpler, less complex option. The 'bright lines' from using a proxy avoids leaving it for auditors to exercise their professional judgement in applying qualitative criteria. The involvement of component auditors may prove to be a suitable proxy.

Were Option 2 to be pursued we harbor similar concerns to those we have around the subjectivity of using qualitative criteria to determine what is an LCE (see our response to Question 4).

25. Are there other ways that group audits could be incorporated into the scope of the proposed standard that is not reflected in the alternatives described above? For example, are there proxies for complexity other than what is presented in paragraph 169 that the IAASB should consider?

Response:

We cannot identify any other ways than the alternatives described above, nor can we think of any other proxies better than those presented.

26. If group audits are included in ED-ISA for LCE, how should the relevant requirements be presented within the proposed standard (please provide reasons for your preferred option):
- (a) Presenting all requirements pertaining to group audits in a separate Part; or
 - (b) Presenting the requirements pertaining to group audits within each relevant Part.

Response:

We prefer presenting all requirements pertaining to group audits in a separate Part.

We note that this approach is used in the IFRS for SMEs ('Section 9 Consolidated and Separate Financial Statement').