

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: Hilde Blomme, Deputy CEO

Organization (*where relevant*): Accountancy Europe

Country/Region/Jurisdiction: Belgium/Europe

General Comments on Proposed ISA for LCE

Response:

The proposed standard is an important step to increase efficiency in LCE audits. We fully support the initiative and the IAASB moving forward with this initiative as soon as possible.

In particular, we support the fact that the driver to choose the ISA for LCE is complexity.

We acknowledge also that the ED is simpler, shorter hence more accessible than the full set of ISAs but we believe that the standard has not explored all possibilities to simplify the audit requirements especially regarding the documentation and audit procedures related to the entity's internal control system.

On documentation, we suggest that the standard states explicitly that only what is done should be documented and when a requirement has been considered not applicable, the auditor is not implicitly required to explain and document why (s)he has not complied with it.

The main key success factor will be the communication efforts to get the buy-in from all stakeholders. We suggest the IAASB delivers a clear message on the fact that the ISA for LCE provides the same level of assurance as the ISAs (i.e., reasonable assurance). This impacts perceptions about the value of the audit for LCEs and acceptance of the proposed standard.

Therefore, we encourage the IAASB to engage with relevant stakeholders and actively advocate for desirable changes aimed at with the ISA for LCE project. Especially, the IAASB could work with national standard setters, regulators and audit oversight bodies to explain the benefits of having a separate standard exclusively focused on audits of LCEs and encourage adoption of this standard.

We believe that prohibiting the use of the proposed standard to group audits will limit the applicability of the standard in practice and reduce its attractiveness. Hence, audits of simple group structures should be included in the scope. However, local authorities may be given the option to refine the applicability of the standard for group audits.

Given how SMEs / LCEs make a critical contribution to the global economy, the IAASB could play a role in promoting the role and value of audit and assurance services provided to SMEs and LCEs more generally. These supporting actions could be done in collaboration with the IFAC.

Finally, we recommend that the IAASB put more effort in the CUSP project and improve the scalability of ISAs by revising them based on a building block (think simple first) approach.

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:

Overall, we support the standalone nature of the proposed standard for LCE. The key to success is whether the ISA for LCE will be comprehensive enough on its own (i.e., fully detached from the ISAs) and concise at the same time.

This will be a response to an urgent need in the short term. In the longer term, ISAs designed in a building block approach (think simple first) should be the IAASB's ultimate objective. In this regard, we hope that the lessons learnt in developing the ED ISA for LCE would guide the IAASB in making ISAs more clear, scalable and proportionate. There are concerns about the IAASB's plans related to the CUSP project as it is unclear where the differences will be between the post-CUSP ISAs and the ISA for LCE.

The eIS is a significant first step towards facilitating the accessibility and the understanding of the ISAs. The ISA for LCE should also be included in the eIS platform. For the ease of navigation, the content of the platform could be enhanced by visuals, graphics, flowcharts, etc.

- (b) The title of the proposed standard.

Response:

The proposed title for the ISA for LCE is appropriate.

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

Response:

In practice, many auditors will also need to be able to apply the ISAs and they will already have an understanding of the key ISA concepts and principles. Auditors who will be performing only ISA for LCE engagements will have to be given a sufficient framework and support. This should include practical examples and guidance to explain the objectives and requirements in the ISA for LCE. Thus, professional education is an issue to consider, as it will remain essential that new auditors have an adequate understanding of the mechanics of an audit engagement.

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:

Yes, we agree with the proposed conforming amendments to the 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:

Clearly, the authority of a separate standard for less complex entities will be determined by local authorities and market demand. We acknowledge the limitations of the IAASB's mandate on this aspect. A standard with concise requirements and a clear structure will have a higher chance of recognition and adoption.

We agree that it is not practicable to set quantitative thresholds at global level. At local level, however, we expect that local authorities and firms may choose to define the scope of the standard more precisely, including quantitative criteria.

While finalizing the LCE standard, further changes made by the IESBA to its proposed definition of PIE should be considered by the IAASB for consistency. We believe the paragraph A.7.(c) of the ED ISA for LCE should be aligned with the revised version of the IESBA Code.

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

Response:

There are benefits as well as challenges of having two sets of global auditing standards. Users' expectations and perceptions are key in this regard. We are concerned that the ISA for LCE might be perceived as a lower-quality audit with less procedures. This would lead to a significant damage to the value of LCE audits. Therefore, clear messaging by the IAASB will be essential to inform stakeholder expectations. The standard should be promoted conveying the message that, while the standard has been simplified, the level of assurance obtained by the auditor is not compromised and the work to be carried out is not less but will be performed in a proportionate manner and more efficiently.

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

Response:

What is considered to be complex is subjective and thus requires application of professional judgement. However, any unclarity brought by this will eventually have to be considered and resolved locally.

Please also see our response to question 13 on transitioning to ISAs.

- (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 that the main audience for the standard will be the practitioners and national standard setters. For other stakeholders, the IAASB's promotion and outreach will be key to inform them appropriately.

- (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:

Yes, it is clear that additional restrictions can be imposed by local bodies on the use of 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 specific prohibitions except group audits (see our response to questions 22 to 26).

For the qualitative characteristics, the auditor is expected to use professional judgement. Most entities will probably be rather clear to assess whether they are LCE or not. However, there might be instances where two auditors come to different conclusions regarding the complexity assessment for the same entity and this might confuse entity's management, users and the regulators.

It should be emphasised that existence of qualitative characteristics may not give rise to complexity on its own and the aggregate impact of the characteristics should be considered by the auditor when deciding on the appropriateness of the ISA for LCE.

5. Regarding the Authority Supplemental Guide:

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

Response:

Yes, the guide will be helpful for local authorities when deciding on whether to adopt the ISA for LCE and for firms when they develop their internal policies.

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

Response:

Local authorities and standard setters should be encouraged to use this guidance as a starting point and to add potential local clarifications regarding the authority of the ISA for LCE where necessary.

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 no other comments with regards to the authority of the ISA for LCE.

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:

In general, we agree with taking the ISAs as a starting point and having a risk-based audit approach with principles-based requirements for LCE. Therefore, we welcome the fact that ED ISA for LCE refers to the same overall objective and uses basic concepts from the ISAs.

As further explained in our response to question 9, there is still room for simplifying the ED ISA for LCE in certain areas. In addition, some areas could benefit from further requirements (i.e., conditional requirements to address specific issues in a modular approach) and guidance to ensure that the ISA for LCE is a standalone standard.

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

Response:

We agree with the approaches taken and that the auditor's objective should be to obtain reasonable assurance.

(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 referring to professional scepticism and professional judgement which are two fundamental concepts for an audit. We also agree that the auditor performing an LCE engagement should be subject to ethical requirements and an appropriate level of quality management.

(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:

Please see our response to question 9 which includes references to EEM that we believe should be expanded or simplified.

Our members had different views on the sufficiency of the EEM. This is mainly due to lack of a guiding principle adopted by the IAASB on when to include EEM. For example, the proposed standard includes extensive EEM on internal control systems and procedures for obtaining audit evidence. In contrast, the EEM is quite limited on significant matters for auditors such as materiality and sampling.

We are not in a position to comment on the sufficiency of the EEM until we see the full implementation package including support materials to be developed by the IAASB. However, we recommend that the IAASB set criteria for deciding what is essential (i.e., to be explained in the standard) and not essential (i.e., to be included in support materials as appropriate).

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:

The structure following the phases of an audit process makes the standard easy to read for both practitioners and other stakeholders. Essential explanatory materials help better understanding the requirements by providing guidance on how to implement them.

As noted above, the clarity and ease of navigation could be enhanced with the inclusion of the ISA for LCE in the eIS platform along with visual elements. The digital version would contribute to the scalability of the standard making it easy to identify conditional requirements.

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:

PART 1: FUNDAMENTAL CONCEPTS, GENERAL PRINCIPLES AND OVERARCHING REQUIREMENTS

The auditor's communication with the management, and those charged with governance (TCWG) where relevant, is paramount to audit quality. Part 1 of the ED ISA for LCE includes general requirements for communicating with the entity's management and TCWG. Other specific matters to be communicated by the auditor are required throughout Parts 2-9.

We recommend that the IAASB categorise these requirements into 2 groups starting from a simple case scenario:

- Essential communication requirements (for entities where all of those charged with governance are involved in managing the entity)
- Conditional communication requirements (for entities where those charged with governance are separate from management)

PART 2: AUDIT EVIDENCE AND DOCUMENTATION

In principle, EEM should be included only if it provides essential guidance on implementing requirements of the ISA for LCE. Under section 2.4 (Procedures for Obtaining Audit Evidence), there is no requirement and EEM is provided to give some details about audit procedures, including the effects of automated tools and techniques. We do not disagree with the content of the EEM. However, we are not convinced if it is essential. It could be positioned earlier – in previous section 2.3 (Information to be Used as Audit Evidence) – if the IAASB concludes that it is necessary to explain the requirements in this section.

We also believe the application material in ISA 230 A.7 should be included as EEM under Section 2.5 of the ISA for LCE to emphasise that it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit.

PART 3: ENGAGEMENT QUALITY MANAGEMENT

Many SME/LCE audits are carried out entirely by the engagement partner (who may be a sole practitioner) or by a small audit team (who may be small or medium-sized practitioners). Most of these engagements may not be subject to a separate engagement quality review. For quality management, small and medium-sized practitioners will most likely have less formal processes that are supplemented by other sources such as guidance from professional accounting organisations and consulting colleagues in other firms.

Therefore, we recommend that the IAASB restructure the requirements in section 3.2 (The Engagement Partner's Responsibilities) starting from a simple case scenario. Requirements referring to the firm's or network's monitoring and remediation processes and engagement quality reviews should be presented as conditional requirements at the end of this section.

PART 4: ACCEPTANCE OR CONTINUANCE OF AN AUDIT ENGAGEMENT AND INITIAL AUDIT ENGAGEMENTS

The information available to the auditor at the acceptance stage will be deepened and supplemented as the auditor performs risk identification and risk assessment – in practice this can be more relevant for the initial audit engagements. In some cases, the auditor may conclude that the audit engagement cannot be undertaken using the ISA for LCE. Hence, the engagement letter should specifically include the possibility for transitioning to the ISAs unless the local regulations impose the use of the ISA for LCE.

The requirement in 4.5.4 does not seem to be relevant. If the auditor is requested with a reasonable justification to change the audit engagement to an engagement that conveys a lower level of assurance, practically the ISA for LCE will not apply any more.

PART 5: PLANNING

We support the IAASB's decision not to require two separate documents for an audit strategy and an audit plan for LCE engagements.

We observe that materiality is an area where auditors often seek guidance. Hence, we suggest the IAASB to provide more direction for the determination of the materiality and performance materiality in the ISA for

LCE. Essential guidance should be presented in the form of EEM and could draw on the introductory material in ISA 320. We also believe that illustrative examples outside the standard could be helpful.

We also believe that the requirement in 5.3.2 should be turned into EEM. We do not expect that it will be common to have the need for different materiality levels to be applied to particular classes of transactions, account balances or disclosures in an LCE audit.

Finally, in illustrative examples and additional EEM, the IAASB should focus not only on profit-orientated entities but also on non-profit organisations as an audit is often required for such entities.

PART 6: RISK IDENTIFICATION AND ASSESSMENT

In our view, there is considerable scope to revise this section for the circumstances of an LCE audit. The work effort and documentation needed could be reduced without compromising audit quality.

We believe that this Part should be improved by removing or simplifying the following requirements:

- 6.3.6, 6.3.7 and 6.3.8 should be merged and auditors should be required (not to evaluate but) to consider the entity's internal control system as a whole instead of having specific requirements for three elements from the COSO framework. The control environment is likely to be simpler and there is unlikely to be separate risk assessment and monitoring processes established in a less complex entity. As a consequence, documentation requirements related to the auditor's understanding of the entity's internal control system should be proportionate.
- We note that the paragraph 6.3.14 requires the auditor to evaluate the design and the implementation of specific controls even when the auditor does not plan to test the operating effectiveness of identified controls. This should be modified as a conditional requirement that will be applicable only when the auditor plans to rely on the specific controls that address the risks of material misstatement at the assertion level.
- 6.4.1 should include risk assessment as well. In an LCE environment risk identification and assessment could be done together as a single step. This will also require simplifying requirements for the risk assessment in section 6.5.
- 6.5.5, where the auditor is required to determine whether the assessed risks associated with related party relationships and transactions are significant risks, should be removed as it is essentially covered by requirements 6.5.4, 6.5.7(b) and 1.7.1.
- 6.5.7 should be simplified by stating that all fraud risks identified should be treated as significant risks. There is no added value in specifying the risk of management override of controls which is already mentioned in paragraph 7.4.7.

PART 7: RESPONDING TO ASSESSED RISKS OF MATERIAL MISSTATEMENT

We have no comments on this part.

PART 8: CONCLUDING

We believe that this Part should be improved by removing following requirements:

- 8.5.2(c), which requires the engagement partner to evaluate that sufficient appropriate evidence has been obtained with respect to accounting estimates. This is already covered by 8.5.5 where the auditor is required to make an overall evaluation of the appropriateness and sufficiency of the audit evidence obtained.

- 8.8.3 which requires the auditor to communicate to those charged with governance significant matters arising during the audit in connection with the entity's related parties. This is already covered by 8.8.2 (c) and (d).
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:

Yes, we agree with the overall approach taken by the IAASB. The presentation, content and completeness of the part is mostly in line with our expectations. The tables A, B and C are very useful to identify the requirements for which modified opinion is to be used in different situations. These tables should be included in eIS in a user-friendly format.

However, the illustrations of auditor's reports should be included in the standard itself as a separate appendix similar to the approach taken in the ISA 700 series. Currently the specified format and content for the auditor's report with an unmodified opinion is presented in Part 9 of the ED and other illustrations are included in the Reporting Supplemental Guide.

There is a need to balance the reporting requirements of the standard with some flexibility in the actual wording of the auditor's report at national level. Therefore, instead of requiring specific wording; paragraph 9.4.1 of the ED ISA for LCE should reflect the requirements set forth in the ISA 700 (including paragraph 51). Further, we suggest that the Guide include the content of paragraph 52 of the ISA 700 (Revised) as well as paragraphs 15 and 27 of the ISA 705.

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

Response:

Yes, we believe that the Supplemental Guide is helpful even though it can benefit from eliminating the repetitions of the ISA for LCE requirements.

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

Response:

We have no other comments on the Reporting Supplemental Guide.

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:

See our response to question 9.

Furthermore, Appendix 4 of the ED ISA for LCE can be simplified based on the combined assertions approach described in the IFAC Guide to Using ISAs in the Audits of Small and Medium- Sized Entities, Volume 1, Chapter 6.

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 believe there will be practical challenges with regards to transition to ISAs. The potential need to change to full ISAs part way through an audit should be relatively rare in practice yet should be addressed appropriately during engagement acceptance. The ED requires a huge change in direction and efforts due to a single complexity encountered during the audit. We suggest that a single or a few complex matters should not lead to transition immediately. Instead, auditors should be allowed to continue the engagement with the LCE standard where auditor must still obtain sufficient appropriate audit evidence in accordance with general requirements and additional guidance to be provided with a modular approach. In this approach there will be modules including specific procedures for a more complex topic or area that could be “added on” where the underlying condition exists.

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

Response:

The process for transitioning to the ISAs is explained in the Explanatory Memorandum. We believe that there is a need for a separate guidance which briefly describes the matters to be considered and steps to be taken while transitioning to the ISAs.

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

Response:

Recent revisions to the ISAs have mainly focused on public interest entities and complex matters. We believe that this trend will continue. Accordingly, future updates to the ISAs should be evaluated and the ISA for LCE should be revised only when there are changes relevant for LCE. We believe that the divergence (in terms of the level of detail) between the standards will increase over time.

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

Response:

Yes, early adoption should be allowed.

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

Response:

No, we do not believe that additional sections or requirements should be added to the ISA for LCE which should stay as a standard for auditing a full set of general-purpose financial statements. Some of our members observe a need for separate ISA 800 series for LCE, hence, the IAASB may consider its future actions based on the responses to this consultation.

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:

The usability of the standard will be determined by local authorities and market demand. There are already separate standards for SME/LCE in some jurisdictions and these may be replaced by proposed ISA for LCE if it meets relevant needs and expectations.

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

Response:

The proposed standard is fairly easy to understand for auditors and overall meet their needs. Other stakeholders may perceive the ISA for LCE engagements as a lower-quality audit with less procedures and cost. Therefore, clear messaging by the IAASB will be essential to convince stakeholders that the audit quality is not compromised, and that reasonable assurance is obtained.

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

Response:

Please see our response to questions 1 and 3.

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:

There are no other matters that we would like to raise.

Section 4G - Approach to Consultation and Finalization

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

Response:

It would be useful if the IAASB provides an example of a sample audit file for an engagement carried out in accordance with the ISA for LCE. That would help visualizing the differences and maybe the increased efficiency created by the application of the proposed standard.

In addition, an implementation guide such as *the IFAC Guide to Using ISAs in the Audits of Small and Medium-Sized Entities* would be very beneficial particularly for small and medium-sized practitioners (SMPs). Engaging with software providers and those responsible for developing methodologies within large networks, the IAASB can provide other supporting materials specifically aimed at SMPs.

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:

The draft standard as proposed is easy to understand and it usually uses plain English with a few exceptions. While revising the draft standard based on comments received, we urge the IAASB to continue following CUSP principles.

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 that suggested period for the effective date is sufficient.

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 believe that prohibiting the use of the proposed standard to group audits (as defined by ED ISA 600) is controversial, as it limits the applicability of the standard in practice. Less complex group situations are common and should be included in the scope of the ISA for LCE. They may exhibit one or more of the following characteristics:

- components operating within one or few (similar) jurisdiction(s)
- no or little involvement of component auditors
- local know-how is not essential
- simple consolidation process set by a non-complex financial reporting framework

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:

Even if the group audits are excluded, the standard could still be used for less complex non-group audit engagements provided that it is adopted by local authorities.

- (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 have no comments to this question.

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

Response:

A simple example for a less complex group would be cases where all the components are operating in the same jurisdiction and the same audit team is conducting the audits of all components. Another example might be a group which consists of LCE components only, even if some of these operate in different jurisdictions. In our view, consolidation does not necessarily create complexity if the applicable financial reporting framework is relatively straightforward, or the group has a single subsidiary that holds a property or another 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:

The same qualitative characteristics listed in the paragraphs A.8 and A.9 could be used in determining the authority of the standard for group audit engagements. Additional factors such as those listed in our response to question 22 could be considered as qualitative characteristics for complexity specific to groups.

We also recommend scoping out the group audits in which component auditors are involved. This will be in line with the approach taken in ED ISA 600 where a sub-section is included in each section of the standard to describe the requirements that apply when component auditors are involved.

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:

No, we believe that the way described in our response to question 25 is sufficient. Adding more proxies or qualitative characteristics will add complexity and create risk of divergent interpretations for the authority of the standard.

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:

Our preferred option will be having a separate part for requirements related to group audits. This will be more practical for auditors to identify relevant requirements.