

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:	<u>Maria Lantz</u>
Organization (<i>where relevant</i>):	<u>FAR, the Institute for the accountancy profession in Sweden</u>
Country/Region/Jurisdiction:	<u>Sweden</u>

General Comments on Proposed ISA for LCE

Response:

The proposed standard is an important step to increase efficiency in LCE audits. The structure with the various phases in the audit process makes the standard easy to read and to understand for both practitioners and other stakeholders. Including essential explanatory material in the standard makes the standard more accessible.

The spectrum of audits where the proposed standard, ISA for LCE, is expected to be used is broad. From small owner managed companies with limited operations to larger entities where the complexity is close to prohibit the use of ISA for LCE. We think that the scalability and proportionality in ISA for LCE need to be clear in the final standard.

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:

The work done by the task force in transforming the ISAs to the standalone format is a great achievement in improving the accessibility to the audit standard. One of the main differences between ISA and ISA for LCE is the lower number of Application and Other Explanatory Material (in ISA for LCE named EEM). The Application and Other Explanatory Material forms part of the basis for the auditor's professional judgement. There might be a risk that the auditor, and the regulator, seek guidance in the Application and Other Explanatory Material also when performing, or assessing, an audit performed under ISA for LCE. The stand-alone nature of the standard (subject to allowing use of the standard for group audits) is important to stress for practitioners, standard setters, regulators and other stakeholders in order to avoid that the ISA-standards are used for interpretation of ISA for LCE.

- (b) The title of the proposed standard.

Response:

The title ISA for LCE gives an obvious link to the ISAs.

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

Response:

Please refer to detailed responses below.

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:

No comments.

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:

The standard is implementable. The prohibited entities are reasonable in A7 a) – c). We acknowledge the issues in defining PIE that is applicable in a global context. Linking the definition to IESBA is a good way to mitigate this.

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

Response:

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. In rare situations this might confuse clients and the regulators.

If firms or networks decide not to allow the use of the standard this might confuse stakeholders and impair the public interest's understanding of the standard.

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

Response:

In A9 it is stated that "... LCE is inappropriate for the audit of the financial statement if an entity exhibits one or more of the following characteristics". In the last paragraph in A9, it is stated "Each of the qualitative characteristics may on its own not be sufficient to determine whether the [draft] ISA for LCE is appropriate or not in the circumstances, therefore the matters described in the list are intended to be considered both individually and in combination. The presence of one characteristic exhibited by an entity does not necessarily exclude the use of the [draft] ISA for LCE for that entity. Notwithstanding that professional judgment is used in determining whether the [draft] standard is appropriate to use, if there is uncertainty about whether an audit is an audit of the financial statements of an LCE, the use of the [draft] ISA for LCE is not appropriate."

In our view these two quotes are contradicting and might confuse the auditors in assessing the applicability in using the standard. The wording in the first paragraph of A9 should be changed to better link to the last paragraph of A9.

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

Response:

Yes. However, defining entities into different categories is not easy. The definition of PIE is commonly used but can still have different meanings. Using the term LCE add a new type of category. The proposed LCE-standard has a built-in possibility for regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions to include further restrictions. This might cause confusion in interterritorial discussions.

- (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. Although we see a challenge within common markets (i.e. EU) local bodies in different territories can add different prohibitions that affect transfer of services between territories and we ask IAASB to encourage regions to apply a consistent approach to limiting the use of the proposed standards.

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:

In our view the probation to use ISA for LCE in group audits is too aggressive. See further under responses to questions 22 through 26. For qualitative characteristics see responses to question 3 (d) and (e).

5. Regarding the Authority Supplemental Guide:
- (a) Is the guide helpful in understanding the Authority? If not, why not?

Response:

The Authority Supplemental Guide is useful for the intended users. However, issuing a supplemental guide outside the standard is not in accordance with the intention to keep the standard comprehensive and with only limited guidance and explanatory material outside the standard itself.

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

Response:

Regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions should be encouraged to use this guidance and to add potential territorial amendments to the ISA for LCE standard and to include monetary thresholds where applicable.

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:

In other sections of the ISA for LCE standard there are specific requirements for documentation included. Since the decision to use the standard is fundamental for the auditor and for regulators and quality controls, clarity in documentation needs is important. We suggest that specific requirements for documentation are added to the Authority section.

Group audits are excluded in the proposed ISA for LCE (see further responses to questions 22 through 26). The applicability of the ISA for LCE for components could be addressed already in the

Authority section. This is commented in paragraph 157 in the Explanatory Memorandum. We believe that, to the extent possible, ISA for LCE should be possible to use based on circumstances in the context of the component rather than from the group audit and group auditor's perspective.

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:

No specific comments.

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

Response:

No specific comments.

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

Response:

No specific comments, since these are the same as for ISA.

- (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:

(i) EEM serves the intended purpose. Larger audit firms have issued audit guidance/manuals based on ISA's Application and Other Explanatory Material expanded with additional firm specific guidance. There might be a risk that firms will add further guidance reducing the intention in ISA for LCE.

(ii) The intention to include limited amount of EEM is positive and will allow the auditor to use professional judgement to a larger extent.

(iii) The approach to include EEM in the body of the standard makes the standard more reader friendly for both practitioners and for other stakeholders especially since they are less extensive than in the ISA:s.

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 overall design and structure of ISA for LCE is good and the approach to a principle-based approach is important to emphasize. The requirements are presented in a more understandable way.

We note however, that some of the requirements still include several “sub-bullets”. If possible, IAASB should reconsider the use of several levels of bullets.

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:

1.2.1 EEM: If firms' policies require an engagement quality review, this could be an indication that the audit is complex. At the same time the reason to appoint an engagement quality reviewer can be to respond to other risk management reasons, i.e. initial audit, audit performed by an auditor with recently obtained signing rights or similar reasons. We suggest that the EEM is expanded to explain this.

1.4.1: The wording in this paragraph should be modified. The documentation requirements when a requirement is relevant or not should involve an amount of professional judgment. In the draft standard it says “A requirement is relevant when the circumstance of the audit addressed by the requirement exists”. In our view the wording should be changed to “A requirement is relevant when **in** the circumstance of the audit the auditor, using his or her professional judgment, considers the requirement relevant.” We suggest that specific documentation requirements should be included to Part 1 or as EEM to this paragraph including that clearly not applicable requirements do not require further documentation. This could be included in section 2.5.4.

Part 2:

2.5 General: ISA for LCE emphasize the auditor's use of professional judgement in performing an audit according to ISA for LCE. Extended room for professional judgement raises the question of how extensive this should be documented. In our view, IAASB should consider if further guidance (requirement, EEM or other support material) is needed in order to clarify documentation needs for engagement inspection procedures. In our view, this is one of the areas where ISA for LCE could clearly mark a distinction between ISA and ISA for LCE, especially in audits of small and micro entities.

2.5 EEM: In the second paragraph about oral explanations, the following part of the text from ISA 230 A5 is missing “... but may be used to explain or clarify information contained in the audit documentation.” Especially for LCE this possibility is important to state in the standard.

2.5.1: The documentation requirements are in line with the ISA. ISA and ISA for LCE are two separate audit standards. In our view, this requirement could be more precise in “... to enable an **auditor experience with audits according to ISA for LCE**, having no previous connection with the audit to understand”.

2.5.7: In LCE, and owner managed entities in particular, communication to management and those charged with governance is often informal and oral. Significant communication items would of course require more detailed documentation and often in writing. Other communication tends to be more of compliance nature (refer to section 8.8 as an example). We suggest that this is further elaborated in EEM to this paragraph.

Part 3:

3.2.6: The proposed standard includes a requirement that “the engagement partner shall take action, as appropriate in the circumstances, including: (a) Following the firm’s policies or procedures to evaluate the threat; and (b) Consulting with others in the firm”. The reference to “in the firm” is in our view too explicit. Smaller audit firms might use other sources for consultation such as experienced colleagues in other firms, within their network or from professional institutes where they are members.

Part 4:

4.8.4 (a): There is a requirement to record that the audit will be undertaken using the ISA for LCE. We believe that it should be enough to state that an audit will be undertaken. To some extent 4.8.5 allow this (i.e. reference to national GAAS) that allow use of ISA and ISA for LCE.

Part 5:

5.2.2 EEM: The intention in the EEM is good and relevant. It is, however, stated that “... a brief memorandum prepared **“at the completion”** of the previous audit ...”. We believe that the limitation “at the completion” should be changed to **“after the completion”** to avoid unnecessary time constraints for the practitioners.

5.4: In smaller LCE communication with management (TCWG often not applicable) the communication is often made orally or in a more informal way. We suggest that the standard allows oral communication, based on professional judgement, in this respect.

5.5.1: We propose that the requirement to document changes is amended with an “if applicable”.

Part 6:

General comments related to Part 6: IAASB has incorporated the changes made in ISA 315 revised 2019. Changes to ISA:s are largely driven by issues and events in the PIE-segment. The previous (current) ISA 315 has been used for audits resulting in a reasonable assurance opinion. As such the previous (current) ISA 315 should be relevant for the requirements from ISA 315 in Part 6 to the proposed ISA for LCE adjusted in accordance with the general objectives in preparing ISA for LCE.

In Part 6 there are more EEM included giving the auditors more guidance in how to interpret the requirements related to the risk assessment for LCE. We concur the need for more extensive EEM in the important risk assessment phase of the audit as included in the proposed standard.

6.3.11: In ISA 315 A170 a good example is included related to scalability. The first bullet in that example is relevant for many LCE:s. We suggest that this example (first bullet) is included as EEM to the proposed standard.

6.4.2: As in ISA 240 p27 the risk for fraud in revenue recognition is presumed to be significant. ISA 240 p48 gives the auditor the possibility to rebut the presumed significant risk in revenue recognition. There is a possibility to rebut this risk, as in ISA. In LCE there is often less incentive to manipulate revenue through fraudulent behaviour. In owner-managed entities the risk would rather be to exclude revenue transaction to avoid taxes. This is a risk related to taxes rather than revenue since this risk also covers recognition of costs not related to the business. We suggest that the presumption of fraud in revenue recognition is required to be assessed but not to be a presumed significant risk.

6.5.7: The proposed standard allows that the presumed significant risk in revenue recognition is a significant risk can be rebutted. In 6.5.7 (a) (ii) it should be stated “if not rebutted”. Refer to our comment to 6.4.2 as well.

6.8.1: in (a) it says “Key elements of the understanding obtained regarding **each** of the aspects of ...”. The proposed standard is intended to be used for a wide range of sizes of entities from very

small to larger SME:s meeting the authority requirements for less complexity. In our view it should be included in the documentation requirements rather than in the EEM that the amount of documentation should reflect the bullets included in the EEM to 6.8.

Part 7:

General comment: The order of obtaining audit evidence in ISA is through Test of Controls and Substantive procedures (Substantive analytical procedures and test of details). In Part 7 the order is Substantive procedures (test of detail and substantive analytical procedures) and test of controls. In the EEM to 7.3.1 the order is as in ISA. We think that the order of planned response to the risk of material misstatement should be the same within Part 7 and preferably with the order as in ISA.

7.4.8: We suggest that item (b) (ii) could be moved to the risk assessment part since this could be performed in that phase of the audit.

7.4.19: The requirement to attend physical inventory counting is often discussed among auditors. Today (and not only for LCE) many entities use reliable perpetual inventory systems that are regularly updated to support existence of the inventory. In other cases, and probably more common in LCE, the inventory count is the only measure for management to confirm existence of inventory and to calculate cost of goods sold. We suggest that IAASB reconsiders the requirements in ISA 501 and in part 7 of the proposed ISA for LCE to better correspond to how management determines existence of inventory. Inventory should be treated as any other balance in respect of assessing the risk and audit response to the assessed risk. Attending inventory count could be one important audit response both from an internal control review procedures perspective and substantive procedures and could form part of the auditor's collection of sufficient and appropriate audit evidence, or attending physical stock take should only be required if inventory is a significant account balance, i.e. when there is a relevant assertion related to existence.

7.4.26: The EEM to this paragraph is very good and should be applicable in ISA as well under similar circumstances.

Part 8:

8.5.2: In (c) the auditor is required to evaluate that sufficient appropriate evidence has been obtained in respect to accounting estimates. In 8.5.5 the same requirement is included in general terms. We believe that this should only be required once.

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:

General: All requirements in the ISA:s, applicable for LCE, are included as requirements in ISA for LCE. In our view this means that an opinion based on ISA for LCE has the same level of assurance as ISA. We think that the auditor's report should be the same for ISA and ISA for LCE except for

reference to the applicable ISA used. Requiring that the auditor's reports should be different would not be a simplification rather introducing two parallel systems for forming opinions.

(a) The presentation, content and completeness of Part 9 is in line with other parts of the proposed standard and the intentions to issue this proposed standard. The table approach to modified opinions is good.

(b) Already under ISA the templates available are used more or less as specified formats amended to reflect specific circumstances (i.e. ISA ISA 570, 701, ISA 720, modifications and other amendments under ISA:s). In our view the intention should be the same under ISA for LCE. That is, the auditor's opinion should be the same as under ISA but with reference to ISA for LCE. Certain aspects not relevant to an LCE could be prohibited.

In the auditor's report there is no possibility to refer to a website for the auditor's responsibility. In our view the reference to a website, as in ISA, should be allowed.

(c) Providing examples is helpful for the practitioners.

11. With regard to the Reporting Supplemental Guide:

(a) Is the support material helpful, and if not, why not?

Response:

It is helpful, especially the indication of words that are required and may not be changed.

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

Response:

None noted.

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 responses under 9 above.

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:

Transitioning between ISA for LCE and ISA will probably be relatively rare. When transitioning occurs, there are aspects to consider that are not commented on in the Explanatory Memorandum or in the EEM. We have identified the following examples:

- If the reason is that the LCE establish a group, is it possible to use ISA for the group audit and ISA for LCE for the individual entities? This is relevant in case group audits are not allowed under ISA for LCE.
- If prior year was audited according to ISA for LCE and current period according to ISA, will the auditor have to comment on this as “other information” as is expected when prior year was not

subject to audit or if that audit was performed by another auditor? This should be addressed in the ISA:s as well. Further, will the opening balance need to be (re)audited according to ISA as well, as required in ISA 510?

- The Explanatory memorandum does not comment on transitioning from ISA to ISA for LCE. Since these are two different standards this should be commented (probably short) as well.

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

Response:

In our view IAASB should issue support materials to assist practitioners in transitioning from ISA for LCE both during an ongoing audit and when the transition is made between two financial years. The material referred to in paragraph 77 is not suitable for this.

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

Response:

This is an important subject. As stated in paragraph 144 in the Explanatory Memorandum, recent changes to ISA are more directed towards PIE and complex entities. When changes are made it is important that the changes in ISA are analysed and challenged based on the characteristics of LCE before added to ISA for LCE. This might lead to that differences between the standards increase over the years.

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

Response:

Yes

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

Response:

ISA 800 and ISA 805 reports are also used within LCE-entities for various stakeholders such as agencies providing grants or government support requiring that the receiver of the grant reports the usage of the resources obtained and that these reports are subject to assurance by an auditor. These assurance engagements are often based on the statutory audit performed with adding procedures adequate for the circumstances. There need to be an "easy way" to use the 800-series for ISA for LCE as well. In our view it is important that ISA for LCE can be the basis for these type of assurance engagements as well.

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 standard can and will probably be used in Sweden, subject to approval by the legislator and the Swedish Inspectorate of Auditors. Within the audit profession the proposed standard is welcomed.

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

Response:

Yes, however, the proposed prohibition to use the standard for group audits will heavily limit the potential use.

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

Response:

As mentioned in paragraph 141 in the Explanatory Memorandum, the use of two different standards will have challenges when designing further guidance, tools and training. We believe that it is important to keep the principle-based approach in ISA for LCE and to encourage firms and users, **not** to add extensive guidance related to ISA for LCE.

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:

The consultation process has been extensive and the task force and IAASB have spent considerable time in include different stakeholders' comments. In the finalisation we find it important not to add requirements in ISA for LCE unless clearly omitted in the draft.

Section 4G - Approach to Consultation and Finalization

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

Response:

Without priority:

- Information material to external stakeholders from the issuer of the standard in order to emphasize the new standard and implications for the entities subject to audit under ISA for LCE.
- Implementation guides to practitioners, firms and other users of ISA for LCE (i.e. regulators).
- Support guidance or documentation examples for areas where the auditor has used professional judgement.

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:

Translations are always a challenge. The proposed standard as well as ISA:s are originally written in English. When translating words where the English language uses different words with intended differences, other languages might have only one word. To the extent possible IAASB should as much as possible try to use words with broader meaning in order to reduce the risk that translation wrongly interprets nuances in the language.

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:

Since the standard is voluntary to use the effective date is less important. We suggest that the effective date should be as soon as possible with permission to early adoption, subject to territory permission.

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:

Group audits need to be included in ISA for LCE.

There are many groups that are not complex and are formed based on other reasons than extensive M&A activities. Group audits should be allowed for Less Complex Group (LCG).

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:

Less usage.

One matter that should be addressed is if ISA for LCE can be used for the audit of the parent (and subsidiary) but ISA for the group audit. The use of ISA could be based on either the (proposed) prohibition to use ISA for LCE or due to that the group audit is complex.

We also think that IAASB should encourage that ISA for LCE should be used in subsidiaries/components also for group reporting purposes if the Authority allows the use for the stand-alone company. If the group auditor requires that the component auditor uses ISA for group reporting purposes this would limit the use of ISA for LCE.

- (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:

No information available.

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

Response:

Simple structures such as having a specific asset such as real estate property in a separate entity, often for tax reasons.

A holding structure to prepare for change in ownership due to retirement or sale of the company (non-complex transaction). These set-ups are often tax driven.

Subsidiaries (components) that are not material components, i.e. situations where the parent company has a dominant part of the group such as a smaller sales company in another country.

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:

In our view (b) is the preferred method allowing the auditor to use professional judgement in determining if ISA for LCE (LCG). Circumstances to consider in determining complexity in a group:

- Who is auditing the subsidiaries in the group (same auditor, same network, other territory)
- Complexity in the group accounting (valuation, acquisitions/divestments, contingent payments)
- Number of entities in the group
- Existence of significant components (size or risk)
- Applied financial reporting framework, both for the group financial statements and for the components.

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:

See 24.

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 find that a separate part is the preferred option. Including the requirements throughout the standard would make it more complex to apply ISA for LCE for a single entity.