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Dear IAASB:

## **Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)**

Baker Tilly International is a network of independent accountancy and business advisory firms. Member firms of Baker Tilly International provide assurance, tax, consulting, and advisory services. Our 38,000 people in 703 offices across 149 territories serve clients of all sizes across all sectors, including substantial numbers of LCEs.

We welcome the opportunity to comment on the IAASB's proposed ISA for LCE. The insights from our member firms inform our comments below as well as our detailed responses to the Exposure Draft questions which can be found in the appendix.

BTI supports the need for ISAs to address audits of financial statements of less complex entities in single company and group situations. Historically ISAs have not been written with LCEs in mind which has led to some jurisdictions exploring simplification for LCEs on their own.

The following principles describe a successful outcome for the LCE audit project meeting the needs of audited entities, users and auditors. They inform our comments on the proposed ISA for LCE:

1. Easy application of audit standards to LCE audits requiring little or no discussion about scope or applicability of the ISA for LCE with management of the LCE
2. The LCE audit product is generally accepted by users
3. Scalability should be embedded in standard setting: we support a building block approach where standards start with the basics and then add in what you need to address more complex circumstances. This approach would impose the burden of compliance with more complex audit standards on the auditors of more complex entities. This contrasts with the current approach where the burden of compliance is on auditors of LCEs who have to identify and take out what they don't need
4. IAASB to explain what is not needed: if not meeting principle 3 through a building block approach then the aim of the LCE audit project should be explanatory only. It should explain how ISAs are applied in the LCE context. Audit costs may fall as a result because

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MEMBER OF THE FORUM OF FIRMS**

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the IAASB has identified what the LCE auditor does not need and the audit firm has been able to apply the body of ISAs more efficiently to the audit of an LCE

5. No difference in the level of assurance, no change in the audit report: To support users and preparers the audit report for an audit of an LCE should give identical assurance to an audit report for an audit of a more complex entity; if either of the approaches in principles 3 or 4 are applied then there is no need for separate reference in the audit report to which standard(s) was(were) used because the weight of audit evidence necessary to give reasonable assurance does not change
6. Common global approach: a common approach helps users relate to similar standards wherever they operate and helps auditors of LCEs and their audit tool providers by enabling efficiencies and reducing fragmentation

In summary we do not believe that a standalone ISA for LCE that sits outside the body of ISAs and requires a differentiated audit report can meet the needs of audited entities, auditors and users.

The scoping issues that derive from having a separate standalone ISA for LCE mean that the needs of LCE auditors are not met.

Yours sincerely

Nick Jeffrey



Director of Professional Standards

## **Appendix: Baker Tilly International comments on specific questions:**

### **SECTION 4A – OVERARCHING POSITIONING OF ED-ISA FOR LCE**

1. Views are sought on:<sup>1</sup>

(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?

(b) The title of the proposed standard.

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

**Baker Tilly comments:** We do not agree that a separate standalone ISA for LCE is desirable or necessary. It risks the LCE project not delivering on its potential.

A consequence of having an ISA for LCE is that the audit report refers to the ISA for LCE. An ISA for LCE reference in the audit report brings a risk that users of audited information perceive the LCE audit is inferior to a more complex audit. If users perceive a difference in the level of assurance between the two audit reports then that will threaten broad acceptance of the differentiated LCE audit opinion and encourage fragmentation. Early signs of fragmentation were one of the prompts for the IAASB to undertake the LCE project. We recommend that there is no difference in reporting – after all an LCE audit is ISA compliant – and that the ISA for LCE is deemed to be part of the body of ISAs – because it is just helping LCE auditors apply ISAs more efficiently and it is not changing the weight of evidence necessary to give reasonable assurance.

We agree that the level of assurance from an LCE audit should be the same as from an audit of a more complex entity. A differentiated report undermines that principle in the eyes of management and users.

It appears that part of the justification for not allowing “topping up” (of procedures required by the ISA for LCE when the auditor encounters more complex audit issues) is a desire on the part of the IAASB to ensure transparency to users of what individual standards have been applied. That would be inconsistent with how an ISA audit is currently reported under ISAs and holds the ISA for LCE report to a higher standard of transparency than the ISA report. For example, the current audit report does not refer to first time use of standards for service organisations, related parties or external confirmations. This problem would not arise if there was no separate ISA for LCE or if the ISA for LCE were deemed to be part of the body of ISAs for example in the way that ISA 600 on group audits is.

Paragraph 27 describes “...the circumstance where an entity has an accounting estimate calculated using a bespoke, complex model that is not contemplated by the proposed standard, but is otherwise an LCE”. The ED says the auditor cannot “top up”, the auditor is not allowed to use the ISA for LCE and so the auditor must revert to full ISAs. This is a consequence of having a separate standard. Yet if this circumstance is discovered during the

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<sup>1</sup> There is an overarching question at the end of Section 4F (question 17) to share [...] views about whether, overall, ED-ISA for LCE meet the needs of users and other stakeholders, and whether the proposed standard can, and will, be used. [We are requested] to answer that question after having considered all relevant matters explained in [the documents submitted for comment].

course of an audit (it is not uncommon for increased complexity to be discovered during the course of an audit, whether or not it has been identified by the audited entity) it means the audit needs to be replanned under ISAs, possibly within a separate audit tool and consequently places the auditor in a difficult situation with management of the audited entity.

If you support the proposed positioning of an ISA for LCE then the title is fine. However, we do not support the positioning. In the absence of a building block approach then a separate standard should be within the body of ISAs and not separate.

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?

**Baker Tilly comments:** If you apply a building block approach or have a separate standard within the body of ISAs then there is no need for 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?

**Baker Tilly comments:** If you decide you need a separate standard then you need to define the standard's scope.

There are 44 explanatory paragraphs in the Authority document. This is one example of how the IAASB's chosen path introduces rather than removes complexity.

The auditor will have to explain the scope to management and seek to identify whether the entity falls within its scope. There might be matters of judgment which require investigation, discussion and documentation. Notwithstanding the technicalities management might have a preference for one path or another, which may or may not be a well-informed view based on management understanding of their audit report's users and their preferences/needs. This is all additional effort to current practice and therefore represent impairments to adoption and implementation of a separate ISA for LCE.

The examples in paragraphs 27 and 68 demonstrate how a separate standard with accompanying defined scope could lead to problems in implementation. The auditor would initially undertake engagement level evaluation at the planning stage but as with all things in an audit what the auditor identifies at the planning stage may prove invalid or inaccurate as audit evidence is gathered. If the auditor identifies that the LCE is in fact outside the scope of the ISA for LCE during the course of the audit then all of the benefits of applying the ISA for LCE are lost and it would likely prove more complex, more expensive and less efficient to have to swap to ISAs midway through an audit assignment. This could be dealt with if the ISA for LCE has a rule to the effect "if the entity falls outside the scope of the ISA for LCE for two successive audit periods then the entity must be audited under ISAs in year 3" or "if during the course of an LCE audit it is identified that the entity falls outside the scope of the ISA for LCE and if circumstances still apply then the following year's audit must be conducted under ISAs". Coming back the other way "If while being audited under ISAs it is identified that an entity falls within the scope of the ISA for LCE and if circumstances still apply then the following year's

audit may be conducted under the ISA for LCE". Consistent with the aim of reducing administrative burden for LCEs requiring an increasingly complex entity to move from the ISA for LCE to ISAs should be deferred and it should be quick for a decreasingly complex entity to be able to move from ISAs to the ISA for LCE.

The adopted approach to scoping mirrors the IAASB's approach to standard setting more generally. The ISA for LCE effectively says the entity is not in scope until the auditor has answered no to 4 questions which are themselves increasingly judgmental in nature.

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

**Baker Tilly comments:** See answers to 3a.

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

**Baker Tilly comments:** No.

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

**Baker Tilly comments:** As described in our answer to 3a scoping is a consequence of having a separate standard. The greatest problems are the practical need to have a scoping discussion with management of the entity (thereby introducing complexity and reducing efficiency), and the consequence of discovering during the course of the audit that the entity is outside the scope of the ISA for LCE.

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

**Baker Tilly comments:** No, there should be greater flexibility for scoping in at jurisdiction level.

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.

**Baker Tilly comments:** Group audits are omitted from the standard's scope, but they too can be simple audits. For example, in groups where all entities are wholly owned the consolidation is a simple mathematical exercise that is not difficult to audit and the audit approach is identical to one company operating in different locations. Inter-company transactions and working with different component auditors are not necessarily difficult and may require only limited judgement. Less complex groups might operate across borders under similar control environments, similar reporting rules and regulations. Using different component auditors is

not a factor in the complexity of an entity and consequently should not be a factor in deciding whether that entity is within the scope of the ISA for LCE.

Some listed (and other public interest) entities are also straightforward audits such as those for many providers of post-employment benefits. By excluding “public interest entities” from scope of the ISA for LCE the IAASB is enabling a perception that the LCE audit gives less assurance than an ISA audit.

It introduces complexity when the ISA for LCE describes its own version of “public interest characteristics”. There are significant differences around the world in what is held to be public interest. This is not an area where the IAASB needs to be introducing another definition and it is not an area that requires greater commonality. There should be greater flexibility allowed for the scoping issue at jurisdiction level.

5. Regarding the Authority Supplemental Guide:

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

**Baker Tilly comments:** Just having a guide indicates that the LCE project may not deliver on its intended goals.

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

**Baker Tilly comments:** The issues that the guide has to address indicate that a separate standard introduces complexity at the scoping stage and therefore impairs the potential benefits of the project.

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

**Baker Tilly comments:** See above.

#### **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<sup>2</sup>. 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).

**Baker Tilly comments:** If you have a separate standard then the approach is reasonable.

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

**Baker Tilly comments:** If you have a separate standard then the approach is reasonable.

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

**Baker Tilly comments:** If you have a separate standard then the approach is reasonable.

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<sup>2</sup> Section 4E below addresses the content of ED-ISA for LCE, including specific questions for respondents to provide their detailed comments on the content of the proposed standard

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

(i) The content of the EEM [Essential Explanatory Material], including whether it serves the purpose for which it is intended.

**Baker Tilly comments:** If you have a separate standard then the approach is reasonable.

(ii) The sufficiency of EEM.

**Baker Tilly comments:** If you have a separate standard then the approach is reasonable.

(iii) The way the EEM has been presented within the proposed standard.

**Baker Tilly comments:** If you have a separate standard then the approach is reasonable.

#### **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).

**Baker Tilly comments:** The ISA for LCE is designed and structured in a manner which should be the template for all ISAs going forward.

#### **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.

**Baker Tilly comments:** Requiring a standalone ISA for LCE leads to duplication and depending on maintenance provisions could lead to unhelpful inconsistency with ISAs.

Our main concerns are with the consequences of having a standalone ISA for LCE than with the content of the ED.

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.

**Baker Tilly comments:** We agree that once you construct the ISA for LCE outside the main body of ISAs then a separate report becomes inevitable but this is an undesirable outcome that enables users to conclude that the LCE audit report gives less assurance than an ISA audit report.

As with ISAs the ISA for LCE should allow auditor’s responsibilities to be presented in an appendix to the audit report or by reference to an appropriate website.

11. With regard to the Reporting Supplemental Guide:

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

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

**Baker Tilly comments:** The need for a Reporting Supplemental Guide illustrates that a standalone ISA for LCE leads to duplication in some areas.

It is unclear why the Guide is non-authoritative. The audited entity may be less complex but users still need appropriate reporting of the audit outcome and still need certainty over how the audit is reported including in non-standard circumstances.

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.

**Baker Tilly comments:** See 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?

**Baker Tilly comments:** The project is about less complex entities but the ED is 110 pages plus 17 pages of supplemental guidance, a 14 page glossary, and a 23 page supplemental guide on auditor reporting under the ISA for LCE. The IAASB has also published a document mapping ISAs to the proposed ISA for LCE. Applying the ED would still be complex, require additional explanation and discussion between the entity and the auditor and require more thought during the audit process than if a building block approach was used for ISAs. Where an entity becomes more complex over time there remain identification (of the complex issue) and application (what the audit team should do, communication with management, resulting inefficiencies) difficulties in moving from the ISA for LCE to full ISAs and vice versa when an entity becomes less complex. If auditors of LCEs perceive the ISA for LCE to bring more costs than benefits, and/or if providers of audit software/audit firms find it too difficult/expensive to build an LCE audit template, then jurisdictions will continue to go their own way and the standard will fail in its intended purpose to avoid fragmentation of audit practice.

If there is a building block approach to ISAs then these complexities fall away. The ISA for LCE need only address the audit fundamentals, which can then be topped up. The explanatory memorandum appears to discount the building block/topping up approach but does not explain why. We do not agree with the assertion that an auditor would then need to refer to the “topped up” ISAs that were implemented because the audit profession is already experienced in applying only applicable standards in the context of ethics, independence, reporting and audit. For example, an auditor already only implements ISA 600 if they are auditing a group and already only implements ISA 540 if they are auditing a material judgment or estimate.

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

**Baker Tilly comments:** We do not think these issues are capable of being addressed by support materials – they are more fundamental than that.

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



**Baker Tilly comments:** We agree that amendments to ISA for LCE should be made periodically when projects to revise ISAs are undertaken. Too big a step from ISA for LCE to ISAs would represent an administrative barrier to growth for the LCE and administrative burden for an audit firm conducting both LCE audits and ISA audits.

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

**Baker Tilly comments:** 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.

**Baker Tilly comments:** This is only an issue by requiring a standalone ISA for LCE. No, special purpose frameworks is a degree of complexity which would usually demand ISAs.

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.

**Baker Tilly comments:** We are aware of significant doubts about regulators allowing use of the ISA for LCE in: the UK, Australia, other parts of Europe and Asia-Pacific and in the US.

At the time of writing we have seen no evidence from the user community but based on experience we suspect they will be wary of endorsing an ISA for LCE that in their perception gives a lower level of assurance than they currently get on the information they receive.

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

**Baker Tilly comments:** In summary we do not believe that a standalone ISA for LCE that sits outside the body of ISAs and requires a separate audit report can meet the needs of audited entities, auditors and users.

The scoping issues that derive from having a separate standalone ISA for LCE mean that the needs of LCE auditors are not met.

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

**Baker Tilly comments:** The scoping issue, addressed throughout our response, is the main implementation challenge of the standard itself.

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?

**Baker Tilly comments:** Other aspects described below derive from the IAASB requiring that the ISA for LCE be standalone and outside the main body of ISAs. That means two separate audit products (an LCE audit and an ISA audit) which increases the opportunity for diversity when combined with existing country by country differences and therefore brings the following challenges to wide adoption:

Software: two audit products means either two software templates based in the same audit tool or two separate audit tools. When you factor in audit tool configurability such as: language; tailoring for local rules; updates; maintenance and sector specific templates then having a standalone ISA for LCE effectively doubles the audit tool maintenance for a software provider and/or accounting network.

Methodology: audit firms would likely need two methodologies and double the supporting infrastructure such as manuals, policies and guidance.

Training: an ISA for LCE would bring specific training requirements such as: what factors to raise with the entity's management at acceptance and re-acceptance; what to do in the event that during the course of an LCE audit you identified that the entity was outside the scope of the ISA for LCE; how to maximise operating efficiencies; documentation requirements; regulatory expectations and LCE audit tool functionality.

Liability: if the market expects an LCE audit to be cheaper than an ISA audit but liability for an LCE audit is identical to liability for an ISA audit then the risk/reward ratio for an LCE audit is not as attractive as an ISA audit. We have already seen firms in parts of Europe cease to offer the LCE option for this reason.

Market perception/acceptance/demand: if users such as private equity investors and lenders perceive that an LCE audit is in some way less credible than an ISA audit then we believe LCEs will be reluctant (or barred by loan covenants) to have an LCE audit. Tax authorities may instigate more investigations of companies that have an LCE audit compared to an ISA audit. Group auditors may not accept an LCE audit from a component auditor.

Market expectation on price: LCEs might say "if an LCE audit is not going to be cheaper then why do we have an ISA for LCE?". Auditors of LCEs might say "if the ISA for LCE doesn't make it more efficient for me to give reasonable assurance on an LCE then why would I propose using it?".

Barrier to growth: if a move from the ISA for LCE to ISAs is not seamless then using the ISA for LCE represents an administrative barrier to growth by the LCE. The adopted principles and structure make transitioning from the ISA for LCE to audits of more complex audits difficult and that represents a barrier to growth for LCEs. The transition from audits of more complex entities to the ISA for LCE is difficult to assess (because of the scoping limitations) and therefore represents a potentially unnecessary administrative burden.

## **SECTION 4G - APPROACH TO CONSULTATION AND FINALIZATION**

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

**Baker Tilly comments:** Technically very little is required. The main issue that audited entities and audit firms will need help to understand is whether users will accept a different LCE audit report.

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.

**Baker Tilly comments:** Having an ISA for LCE specific definition of public interest characteristics will be difficult to translate and easily confused with existing definitions of PIE.

For quantitative and qualitative thresholds, the local authority will need to apply judgement to translate, in order to fit the local context. For example, it will be difficult to apply a quantitative threshold based on revenue alongside qualitative thresholds in an ISA for LCE.

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.

**Baker Tilly comments:** In addition to national due process and translation, there are needs for:

- users to make their views known about whether they will accept the standard (especially if there is a separate LCE report)
- software providers (and firms that build their own audit tool/methodology) to build/test/pilot/roll out a new LCE audit tool/template (which will be necessary if there is a separate ISA for LCE). Especially for software providers, given the experience of many firms with revised audit tools for ISA 540 and ISA 315 revised, 18 months implementation period is too short – we suggest a minimum of 24 months.

We agree that earlier adoption should be allowed.

## **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.

**Baker Tilly comments:** We would not need to consider this and other questions around group audits if the LCE project fell within the scope of ISAs.

While some groups have complexity group audits should not be excluded from the scope of the ISA for LCE. Most groups are simple in their construct and present no additional audit complexity than if they were all collected under one corporate entity.

Excluding groups from the scope of the ISA for LCE would represent an unnecessary barrier to growth.

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?

**Baker Tilly comments:** Excluding groups from the scope of the ISA for LCE would repeat mistakes of the past which have led to jurisdictions exploring simplifications for LCEs on their own and reduce the number of audited entities within its scope making it less efficient and thereby less likely for an audit firm to support both ISA audits and LCE audits. We have already seen evidence in parts of Europe where something akin to LCE audits is already allowed that

some firms have elected only to provide ISA audits and have withdrawn from the market for LCE audits because they were unable to overcome inefficiencies in supporting both.

(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?

**Baker Tilly comments:** This question is unlikely to give representative information because of the differing nature of client bases within respondents to the ED. We estimate that at least 90% of all groups are less complex.

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

**Baker Tilly comments:** The main complexities in group audits arise where there are complex ownership structures. Group audits are not technically difficult but they can be organisationally challenging. Organisational challenges such as the use of component auditors are not the sort of complexities that should be a factor in deciding whether an audit is in scope for the ISA for LCE. Examples of groups with limited complexity are:

- wholly owned groups or simple ownership structures
- groups with few/no intragroup trading or intragroup transactions which are only in the nature of loans
- groups operating under similar reporting rules and similar regulation.

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.

**Baker Tilly comments:** If you didn't have a standalone ISA for LCE then this would not be an issue.

While option 1 (cut-off option) may be easier to apply, in practice it could lead to breaching the scope requirements mid-audit which as we have described above is undesirable. The ED's proxies for cut-off do not necessarily describe complexity.

To avoid barriers to growth and facilitate moving from the ISA for LCE to ISAs and back again the IAASB is going to have to allow the auditor to exercise judgment. The qualitative approach in option 2 is therefore preferable to option 1.

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?

**Baker Tilly comments:** The ISA for LCE could say: “If a group in its entirety is not complex, or only an immaterial component(s) is complex, then the group as a whole should fall within the scope of the ISA for LCE.” A way of limiting the scope acting as an impairment to growth the ISA for LCE could say “If a group fails to fall within the scope of the ISA for LCE for two successive years then the audit in the third year shall be conducted under ISAs”.

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.

**Baker Tilly comments:** This is only an issue because the IAASB is requiring the ISA for LCE to be standalone. Option b is preferable on the grounds that is most helpful to users of the ISA for LCE.