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International Auditing and Assurance Standards Board (IAASB)

ICAN's COMMENTS - PROPOSED INTERNATIONAL STANDARD ON AUDITING FOR AUDITS OF FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES (ISA FOR LCE)

The Institute of Chartered Accountants of Namibia (ICAN) is a membership Institute for Chartered Accountants in Namibia. At the moment all registered auditors in Namibia are also Chartered Accountants registered with ICAN. ICAN currently has 745 members of which 96 are in public practice as registered auditors.

This letter serves as a response to your Exposure draft on Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE).

This letter was drafted with the input of representatives from Chartered Accountants (Nam) who are also registered auditors in Namibia. In addition, comments were gathered during a round table discussion that ICAN and the Botswana Institute of Chartered Accountants (BICA) Co-hosted. Auditors from Namibia and Botswana were invited to take part in the round table discussion.

Our comments have been structured as per the template response letter provided by the IAASB along with the exposure draft itself.

Feel free to contact us should you wish to discuss any of our comments. You are welcome to contact Carmen Penderis at carmen@ca-nam.com.

Yours sincerely

Carmen Penderis CA(NAM) CA(SA)
TECHNICAL STANDARDS EXECUTIVE

General Comments on Proposed ISA for LCE

The following characteristics of the draft standard add value and we believe they are necessary to simplify the draft standard while maintaining audit quality:

- The increased readability,
- improved layout reducing duplication,
- the intention to reduce the complexity of documentation required,
- the need to continue to apply the Quality Management Standards, the Code of ethics, and
- the requirement to be independent.

Approach to the authority of the draft standard

The standard and the authority of the standard are aimed at entities that are less complex and can therefore use the draft standard. The draft standard currently allows for instances where entities with certain complexities can use the draft standard if the assessment by the auditor is that the draft standard remains appropriate.

We believe that this approach ignores **audit risk**, such as cases where, despite the lack of complexity, the risk of material misstatement and the risk that the auditor does not identify the misstatements remains higher. In these cases, the draft standard would not necessarily be appropriate. Examples of such cases include:

- Where substantive procedures alone are insufficient.
- Where the significant risks are related to completeness. Completeness is inherently a complex assertion to obtain audit evidence on.
- Where the audit report includes significant “Other legal and regulatory reporting requirements”.
- Any other instances where audit risks are identified in the client and engagement acceptance procedures.
- Instances where the nature of the entity results in significant inherent risks which increase audit risk.
- Where reliance is required on complex IT systems or significant and complex computer-assisted audit techniques. This differs from the current authority because currently where there is a complex IT system, it's an indicator of complexity, however, if the systems are not relied on for the audit, the draft standard should still apply.

Conversely, there may be instances where entities are more complex but the audit risk remains low. In addition, there may be cases where the users of the financial statements are limited and the public interest is very low or even zero. In these cases, despite some complexity, the audit risk is low. For example, where substantive tests of detail alone are sufficient, where external confirmations alone are sufficient etc. Examples of such cases include:

- Entities within a group that are considered insignificant by the group auditors, where no group reporting is required. The audit of these entities is not necessarily complex.
- Group audits where there are many subsidiaries with component auditors but where the group owns 100% of all its subsidiaries and where there are limited intercompany transactions.

- Where the audit can be performed purely with substantive procedures for example where the figures can be confirmed with external confirmations or vouched to simple rental agreements or supporting documentation.
- Complex valuations where the valuations are performed by appointed valuers. The audit work would be limited to evaluating the expertise etc. of the valuator.

We recommend changing the approach to be aimed at “Less complex **audits**” rather than “less complex entities”. We believe the authority should be based on audit risk rather than the entity's complexity.

Usefulness and top-up from full ISAs

At this point, we do not see a significant difference between the requirements of the draft standard vs full ISAs. Most of the reduction in the size of the draft standard appears to be relating purely to more concise wording, limitation of duplications, etc. rather than an actual reduction in audit complexity and requirements.

The standard is simplified by removing paragraphs or requirements that are not expected to be present in less complex entities. We do not believe that this changes anything significantly because where a paragraph or requirement in full ISA's is not applicable, the auditor would not apply them. The fact that they are excluded from the draft standard is therefore irrelevant.

In fact, the exclusion of these requirements or paragraphs may cause a challenge in instances where the need to top up does not indicate that the use of the draft standard is inappropriate.

At the moment the Authority states that when ISA for LCE is used, the auditor may not “top up” their audit procedures from the full ISAs. We believe the auditor would benefit from being permitted to use full ISAs where the draft standard is silent on certain matters. E.g., The draft standard does not refer to internal auditors, however, it is possible for an auditor to rely on one procedure performed by an entity's internal auditor without this indicating that the draft standard is not appropriate. In these instances, there would be no information in the draft standard relating to internal auditors.

Should the draft standard be amended to allow for a top-up from full ISAs without this indicating the draft standard is inappropriate the audit report could need to be altered slightly. The wording could be similar to accounting policies where, for instance, IFRS is used as a financial reporting framework but certain balances or classes of transactions are accounted for in terms of IPSAS.

Namibian LCEs

LCEs in Namibia are significantly smaller than LCEs that this standard appears to be aimed at. The following are examples of LCEs in Namibia which make up a significant portion of audits that require a simplified audit standard:

- Dormant companies.
- Property companies with only one tenant and 12 rental payments, and some expenses.
- Holding companies with only management/ administrative fees and some expenses.
- Professional services that are required to be audited in Namibia (engineers, architects, doctors).

- Investment companies (One investment portfolio managed by an unrelated company) The statement from the underlying investment portfolio would confirm everything.
- Owner-managed businesses where one spouse operates the business and the other spouse performs the accounting function. This happens often in Namibia for farmers.
- Owner-managed businesses with little to no segregation of duties, internal controls, or external users.
- Instances where reasonable assurance could be obtained through substantive tests of detail alone.
- Situations where audit risk may be limited to completeness only.

At the moment, we believe that the draft standard does not provide significant relief.

Quality reviews

One of the main concerns from practitioners is the potential impact on internal and external quality reviews. Over time, quality control requirements have increased and become more onerous, often significantly impacting an auditor's judgements with respect to audit risk assessments, procedures, reporting, etc.

Practitioners are concerned that using the draft standard would result in quality review failures or significant differences of opinion as to the sufficiency of audit documentation when ISA for LCE is applied.

We believe that one solution may be to provide additional guidance or Essential Explanatory Material (EEM) in the draft standard which is clearer as to the extent of documentation required. We discuss this further in the letter.

Areas where simplification would be most valuable

We believe that the draft standard will have a very limited impact on the extent of audit procedures/ work required. This is obvious as an audit is an audit and the main areas of an audit and the auditor's considerations must remain in order to provide the same level of assurance as with full ISAs.

The biggest issue facing auditors of LCEs is not the extent of audit procedures or consideration requirements, but rather the **extent of documentation** required. This is most evident in the planning and concluding phases of the audit.

In planning for LCEs, much of the required documentation does not add any value to the audit conclusion. This results in unnecessary time spent on the audit.

When reviewing the mapping documents, the difference in requirements between the full ISAs and the draft standard appear to relate mainly to improved readability and layout rather than a simplification of the audit itself.

The Essential Explanatory Material (EEM) in the draft standard and its supplementary guides is not sufficient to clarify what **level of simplification** is acceptable. This would cause challenges when auditors face quality reviews. We believe the impact would be that, in order to avoid audit failures in quality reviews, auditors will choose to use full ISAs to avoid time-consuming discussion and documentation to explain why the draft standard is appropriate and why the reduced

documentation is appropriate. An example of this is where the rebuttable presumption of revenue as a significant risk is maintained rather than rebutted. It is not appropriate, but it is the practical result of restrictive standards and quality reviews.

The draft standard does not provide relief due to the documentation requirements that remain and the lack of guidance as to how to simplify and reduce the extent of the documentation. We believe the impact on the audit file would be a template list of the requirements per the draft standard with a “not applicable” response to most. This is the type of documentation that wastes time and adds no value.

The assumption for the standard is that the entity is less complex, requirements (“The auditor shall”) are therefore less appropriate. Professional judgement is key in order to ensure that where documentation is critical to support an appropriate audit opinion, it is included in the audit file and meets the requirements of appropriate documentation.

We recommend to either:

- include significant additional EEM regarding documentation requirements to guide auditors on how to reduce the extent of documentation for LCEs.
- remove documentation requirements (“the auditor shall”) and replace these with required auditor considerations. The auditor would need to include evidence on file that the matters were considered (Minutes etc.) but would not need to document the considerations themselves unless the consideration leads to an impact on the audit plan/ strategy. This would limit the need to document considerations that are intuitive thereby reducing audit documentation that adds no value, or

An example of these cases is:

A property company with one property leased to a related group company where the shareholders of the group company and the property company are the same. (This is very prevalent in Namibia. The terms of the contract are a fixed rental with market-related annual escalation with the use of IFRS for SMEs.

Inspection of the contract and comparison of the contract to recorded rentals and actual receipts and confirmations from the group entity would cover all assertions for all account balances and transactions.

Per the current standard, the following documentation would be required even though the impact, therefore, is intuitively irrelevant:

- *Internal control risk*
- *Fraud risk*
- *Understanding internal controls, organisational structure, etc.*

In addition, ISAE 3000 could be a starting point for the guidance mentioned above. The ISAE 3000 still results in Reasonable Assurance but requires significantly less planning and concluding documentation.

Specific questions

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

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

Response:

We agree that the standard should be stand-alone.

- (b) The title of the proposed standard.

Response:

We recommend that the standard be named for less complex audits rather than less complex entities. This is explained in our general comments above.

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

Response:

Only those described in our general comments above.

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.

Section 4B – Authority of the Standard

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

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

Response:

We believe the authority should be aligned to audit risk rather than the entity's complexity. This is explained in our general comments above.

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

Response:

The Authority lists entities that may not use the standard e.g., listed entities, entities that take deposits, etc. There are however other entities that should fall outside of the standard that may not meet these characteristics. We recommend that the list in the authority refer to “Public Interest Entities” instead. This would ensure that all relevant entities within a jurisdiction could be covered. This would also limit debate as to whether public interest entities not listed in the authority could use the draft standard.

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

Response:

See the previous comment.

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

Response:

See previous comments.

- (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.

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:

The standard and the authority of the standard are aimed at entities that are less complex and can therefore use the draft standard. The draft standard currently allows for instances where entities with certain complexities can still use the draft standard if the assessment by the auditor is that the draft standard remains appropriate.

We believe that this approach ignores audit risk, such as cases where, despite the lack of complexity, the risk of material misstatement and the risk that the auditor does not identify the misstatements remains higher. In these cases, the complexity may be increased however the draft standard would not necessarily be appropriate. Examples of such cases include:

- **Where substantive procedures alone are insufficient.**
- **Where the audit report includes significant “Other legal and regulatory reporting requirements”.**
- **Any other instances where audit risks are identified in the client and engagement acceptance procedures.**
- **Instances where the nature of the entity results in significant inherent risks which increase audit risk.**
- **Where reliance is required on complex IT systems or significant and complex computer-assisted audit techniques. This differs from the current authority because where there is a complex IT system, it's an indicator of complexity, however, if the systems are not relied on for the audit, the draft standard should still apply.**

Conversely, there may be instances where entities are more complex and cannot, therefore, use the draft, but the audit risk remains low. In addition, there may be cases where the users of the financial statements are limited and the public interest is very low or even zero. In these cases, despite some complexity, the audit risk is low. For example,

where substantive tests of detail alone are sufficient, where external confirmations alone are sufficient etc. Examples of such cases include:

- Where the audit can be performed purely with substantive procedures for example where the figures can be confirmed with external confirmations or vouched to simple rental agreements or supporting documentation.
- Complex valuations where the valuations are performed by appointed valuers. The audit work would be limited to evaluating the expertise etc. of the valuator.

We recommend changing the approach to be aimed at “Less complex audits” rather than “less complex entities”. We believe the authority should be based on audit risk rather than the entity's complexity.

5. Regarding the Authority Supplemental Guide:

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

Response:

No issues noted.

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

Response:

None.

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:

As mentioned 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. 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 issues noted.

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

Response:

No issues noted.

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

Response:

No issues noted.

(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:

As noted in our general comments, we believe significant additional EEM should be provided regarding how to apply the documentation requirements with respect to extent and simplicity compared with Full ISA's.

We recommend that the IAASB take note of a guide on how to apply IFRS for SMEs to micro-entities. Such guidance for applying the provisions in the draft standard for micro-entities could be very valuable. This would be most valuable when giving guidance on the extent of documentation that would be considered sufficient. This could be done in the form of EEM. The guide referred to can be found at [IFRS - Guidance for micro-sized entities](#)

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 design and structure make the standard easy to follow.

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:

Not specific to a Part:

At this point, we do not see a significant difference between the requirements of the draft standard vs full ISAs. Most of the reduction in the size of the draft standard appears to be relating purely to more concise wording, limitation of duplications, etc. rather than an actual reduction in audit effort and documentation requirements.

The standard is simplified by removing paragraphs or requirements that are not expected to be present in less complex entities. We do not believe that this changes anything significantly because where a paragraph or requirement in full ISAs is not applicable, the auditor would not apply them. The fact that they are excluded from the draft standard is therefore irrelevant.

In fact, the exclusion of these requirements or paragraphs may cause a challenge in instances where the excluded paragraphs are applicable but do not indicate that the use of the draft standard is inappropriate.

At the moment the Authority states that when ISA for LCE is used, the auditor may not “top up” their audit procedures from the full ISAs. We believe the auditor would benefit from being permitted to use full ISA's where the draft standard is silent on certain matters. E.g. The draft standard does not refer to internal auditors, however, it is possible for an auditor to rely on one procedure performed by an entity's internal auditor without this

indicating that the draft standard is not appropriate. In these instances, there would be no information in the draft standard relating to internal auditors.

Should the draft standard be amended to allow for a “top-up” from full ISA’s without this indicating the draft standard is inappropriate the audit report would need to be altered slightly. The wording in the audit report could be similar to accounting policies where, for instance, IFRS is used as a financial reporting framework but certain balances or classes of transactions are accounted for in terms of IPSAS.

The biggest issue facing auditors of LCEs is not the extent of audit procedures or consideration requirements, but rather the extent of documentation required. This is most evident in the planning and concluding phases of the audit.

In the planning phase for the audits of LCEs, much of the required documentation does not add any value to the audit conclusion. This results in unnecessary time spent on the audit.

When reviewing the mapping documents, the difference in requirements between the full ISA’s and the draft standard appear to relate mainly to improved readability and layout rather than a simplification of the audit itself.

The EEM in the draft standard and its supplementary guides is not sufficient to clarify what level of simplification of audit documentation is acceptable. This would cause challenges when auditors face quality reviews. We believe the impact would be that, in order to avoid audit failures in quality reviews, auditors will choose to use full ISAs to avoid time-consuming discussion and documentation to explain why the reduced documentation is appropriate. An example of this is where the rebuttable presumption of revenue as a significant risk is maintained rather than rebutted. It is not appropriate, but it is the practical result of restrictive standards and quality reviews.

The draft standard does not provide relief due to the documentation requirements that remain and the lack of guidance as to how to simplify and reduce the extent of the documentation. We believe the impact on the audit file would be a template list of the requirements per the draft standard with a “not applicable” response to most. This is the type of documentation that wastes time and adds no value.

The assumption for the standard is that the entity is less complex, requirements (“The auditor shall”) are therefore less appropriate. Professional judgement is key in order to ensure that where documentation is critical to support an appropriate audit opinion, it is included in the audit file and meets the requirements of appropriate documentation.

We recommend to either:

- include significant additional EEM regarding documentation requirements to guide auditors on how to reduce the extent of documentation for LCE’s, or
- remove documentation requirements (“the auditor shall”) and replace these with required auditor considerations. The auditor would need to include evidence on file that the matters were considered (Minutes etc.) but would not need to document the considerations themselves unless the consideration leads to an impact on the audit plan/ strategy. This would limit the need to document

considerations that are intuitive thereby reducing audit documentation that adds no value.

An example of these cases is:

A property company with one property leased to a related group company where the shareholders of the group company and the property company are the same. (This is very prevalent in Namibia). The terms of the contract are a fixed rental with market-related annual escalation with the use of IFRS for SMEs.

Inspection of the contract and comparison of the contract to recorded rentals and actual receipts and confirmations from the group entity would cover all assertions for all account balances and transactions.

Per the current standard, the following documentation would be required even though the impact, therefore, is intuitively irrelevant:

- *Internal control risk*
- *Fraud risk*
- *IT systems*

In addition, ISAE 3000 could be a starting point for the guidance mentioned above. The ISAE 3000 still results in Reasonable Assurance but requires significantly less planning and concluding documentation.

Glossary of terms:

- “Material class of transaction, account balance or disclosure” (Material COTABD)
Par 7.3.16 refers to “Material class of transaction, account balance or disclosure” (COTABD) There is no definition of this term in the glossary or the draft standard itself.

ISA 315 (REVISED 2019) par A235. Includes a statement that “When a class of transactions, account balance or disclosure is determined to be significant as required by paragraph 29, the class of transactions, account balance or disclosure is also a material class of transactions, account balance or disclosure for the purposes of paragraph 18 of ISA 330.”

The impact of an auditor’s determination of what constitutes a material COTABD is crucial to the audit plan as it impacts what audit procedures are required. 7.3.16 requires substantive tests of detail for material COTABDs regardless of the assessed risks. The reason for this comment is that there is some ambiguity in what would constitute a material COTABD.

It is clear from ISA 315 (revised 2019) that significant COTABDs are Material COTABDs, but what else is a Material COTABD? Would a Material COTABD be those with a monetary value that exceeds the materiality threshold set during the planning phase as well as significant COTABDs?

We recommend that either a definition of Material COTABD be included in the glossary or Part 7 should include a similar par to ISA 315 (revised 2019) par A235 as well as a clarification of what else would be considered a Material COTABD.

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

Response:

- We believe the tables included in Part 9 are very helpful and would be helpful for full ISA's as well. The presentation is very clear and easy to read and follow.**
- We agree with requiring a specific format unless laws and regulations require specific formats.**
- Yes, we agree with the approach.**

11. With regard to the Reporting Supplemental Guide:

- Is the support material helpful, and if not, why not?

Response:

Yes, we believe it is helpful.

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

Response:

The following would be helpful as these questions often arise in our jurisdiction:

- Modifications of the audit report due to prior period errors – A common question is how long an audit opinion needs to be modified for misstatements in prior periods that now only impact retained income. Guidance on this would be helpful.**
- Impact on the audit report in cases where current management was not involved in the financial year being audited (change in management) and does not want to take responsibility for the financial statements.**

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:

No input to provide.

Section 4F – Other Matters

13. Please provide your views on transitioning:

- 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:

Where the predecessor auditor uses full ISA and the new auditor uses ISA for LCE or vice versa, the following may create a challenge:

- The wording in the audit report to describe the change to the other standard, the reason, and the potential impacts on the audit/ audit report of the change, which should be limited due to the same level of assurance obtained.
- Potential professional impact (ie. courtesy towards predecessor auditor).

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

Response:

Illustrative wording that can be included in the audit report. This could be similar to what is included in the accounting policies section of financial statements when the financial reporting framework is changed from the prior year. E.g. there is no impact of the change in audit standards on the level of assurance obtained.

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

Response: **Yes.**

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:

No comment.

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:

In the current form, we believe the draft standard would not result in a significant difference in the documentation requirements and the time required to complete the audit. We describe this further in our general comments above.

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

Response:

See response above.

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

Response:

No additional comment.

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

Response:

We believe guidance should be sought from practitioners as to which entities and/ or which audits would fall within the scope of the draft standard. We provided a list in our general comments to help the IAASB understand the nature of entities in Namibia to which the draft standard is likely to be applicable.

Section 4G - Approach to Consultation and Finalization

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

Response:

Nothing additional to add at this point.

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:

Not applicable. Namibia adopts the standards without amendment.

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:

No comment.

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 the draft standard should be permitted for group audits. There are group audits that can be considered low risk and would benefit from the use of the draft standard.

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:

Should the draft standard significantly reduce the audit time, firms will likely still use the standard for non-group audits.

- (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:

Not applicable to the Institute.

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

Response:

- **Group audits where there are many subsidiaries with component auditors but where the group owns 100% of all its subsidiaries and where there are limited intercompany transactions.**
- **Those that do not represent audits listed in the following question (24.).**

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

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

Response:

We believe the proxies and characteristics should apply audit risk rather than the complexity of the group.

We believe a group audit is complex in the following instances:

- **Multiple levels of structure as it impacts the consolidation and therefore the audit of the consolidation. E.g., Holding company-> subsidiary-> sub-subsidiary.**
- **Across border groups resulting in the need for foreign component auditors which increases the complexity of the audit.**
- **Groups with Non-Controlling Interest.**
- **Groups where there are significant intergroup transactions consisting of unrealised profits, sale of assets, leasing of assets, etc.**
- **Other complex elimination journals e.g. relating to change in ownership within the group.**

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:

Where the group auditor assesses the risk of each component, it should also assess which auditing standards they expect to be applied to each entity in the group. Once each assessment is complete, the group auditor would then determine whether the draft standard would be appropriate based on how the group audit would be impacted by subsidiaries that will be audited in terms of full ISAs. This would be included in the determination of whether the group financial statements can be audited in terms of the draft standard.

In the case above, the IAASB would need to consider whether the group audit report should include a reference to subsidiaries that use a different audit standard to the group. As long as the audit report clearly states that the two standards provide the same level of assurance, it should be sufficient.

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 believe groups should be included in a separate part as there are elements of a group audit that are not included elsewhere in the standard, for example, group reporting requirements, component risk assessment, etc.