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Dear Mr Seidenstein,

Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities ('ED-ISA for LCE')

RSM International Limited, a worldwide network of independent audit, tax, and consulting firms, appreciates the opportunity to comment on the IAASB's Exposure Draft, *Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities*.

We thank the drafting team for their work on ED-ISA for LCE and the helpful webinars that have been delivered during the consultation period.

We support the intention to create a single standard for use by auditors of LCEs as an interim measure while the Complexity, Understandability, Scalability and Proportionality project is conducted. We look forward to the output from this project.

In overall terms, ED-ISA for LCE is well structured and clear in its requirements. We particularly like the way in which it follows the flow of an audit from engagement acceptance to completion.

However, we have a number of concerns regarding the content of the proposed standard, the most significant of which are set out below:

- We believe that auditing standards should seek to ensure audit quality above all else. In our view, certain of the ISA requirements that are included in ED-ISA for LCE do not appear to be required in order to perform a quality audit on an LCE. Examples of this include the requirements in ISA 315 to document the Control Environment, the Entity's Risk Assessment Process and Monitoring of Controls, all of which are very often informal in LCEs. The procedures that the ISAs require in these areas are seen as a distraction from focussing on the risks and unnecessary "box ticking" on an LCE audit. All audit work needs to add to quality and we suggest that the IAASB revisits the content of ED-ISA for LCE and considers whether some of the requirements of ISAs could be reduced or eliminated for LCEs, without compromising on audit quality.
- The reference in the auditor's report to the conduct of the audit under the "ISA for LCE" may result in users of the financial statements believing that the assurance provided is lower than an audit for the same entity under ISAs, even though this is not the case. Our concern is that this misconception could impact the adoption of the standard. We recommend that the IAASB reconsiders whether referring to ISA for LCE is helpful to the users of the financial statements.
- The exclusion of groups is a significant issue in ED-ISA for LCE. The existence of subsidiary undertakings does not necessarily make a group complex or difficult to audit. Many networks

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have LCE solutions which can accommodate simple groups without any increase in audit risk and, in our view, groups should be scoped into the proposed standard, albeit with appropriate parameters to exclude those that are truly complex. We set out our recommendations for including groups in our responses to the questions in the Response Template.

The introduction to ED ISA for LCE states that the IAASB seeks to establish a high quality LCE standard that has global relevance and avoids both the inconsistencies in quality and the confusion that could arise if alternative LCE standards are developed in different jurisdictions. Our overall concern with ED-ISA for LCE is that the issues mentioned above are so significant that some jurisdictions, networks and individual firms may not adopt the final LCE standard and therefore the IAASB may not achieve its above stated goal. In our view, it is in the public interest that the IAASB's final standard is widely accepted and adopted as a contribution to audit quality. We therefore request that the IAASB reconsiders the issues that we have noted.

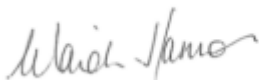
To promote the adoption of the final standard we suggest that the IAASB:

- develops a communication plan to accompany the issuance of the standard, with the following key messages:
 - the ED-ISA for LCE provides the same level of assurance as the ISAs, namely reasonable assurance;
 - the ED-ISA for LCE is tailored to the characteristics of less complex entities, i.e. it has been built upon the ISAs and the requirements that were not relevant to LCEs have been removed;
 - the need for auditors to use professional judgment in determining whether it is appropriate to use the standard, based on the entity's characteristics.
- explains the key differences between an audit conducted in accordance with the ED-ISA for LCE and an audit conducted in accordance with the ISAs. This would include how to transition from one to the other and be accompanied by an up to date mapping document.
- develops appropriate guidance and tools to support auditors' use of the ISA for LCE.

Our responses to the specific questions posed in ED-ISA for LCE are set out in the Response Template, including further consideration of the concerns expressed above.

We would be pleased to discuss our views further with your staff. If you have any questions regarding our comments, please contact Steve Whitcher (steve.whitcher@rsm.global) or me at (marion.hannon@rsm.global).

Yours faithfully,



Marion Hannon
Global Leader, Quality and Risk

General Comments on Proposed ISA for LCE

Response: We welcome the ED-ISA for LCE but have a number of reservations as set out in the responses below.

Specific Questions

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

1. Views are sought on:

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

Response: We agree with the standalone nature of the proposed standard. Having one standard which contains all of the requirements for the audit of an LCE makes it easier to understand, use and apply.

In addition, we have concerns regarding the prohibition in paragraph 26 of section 4A from referring to the ISAs for further guidance in areas which are not dealt with by the ED-ISA for LCE. These are set out in our response to Question 13 below.

- (b) The title of the proposed standard.

Response: Our view is that the name of the proposed standard is appropriate.

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

Response: We support the conclusion that a reasonable assurance opinion is appropriate for this standard. However, we have a number of concerns regarding how this may be received in the marketplace. These are discussed further below in our response to Question 17 as requested in the Explanatory Memorandum.

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

Response: We agree with the proposed conforming amendments to the IAASB Preface. We propose amending paragraph 5 of the Preface to read “*International Standards on Auditing (ISAs) are to be applied in the audit of historical financial information, except where the ISA for LCE is used”*. This would make clear that, when using the ISA for LCE, the full ISAs are scoped out.

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: In our opinion, the Authority as set out in ED-ISA for LCE can be implemented, however we have concerns that it will not be implemented unless IAASB addresses:

- the approach to incorporating all of the ISA requirements in ED-ISA for LCE as set out in our response to question 7;
- the reference to ISA for LCE in the Auditor’s Opinion as set out in our response to question 10;
- the exclusion of groups as set out in our response to questions 22-26;

- certain issues in the list of prohibited entities in paragraph A9. In our view, not all special purpose entities are complex, for example a company that owns a single building. In addition, a highly integrated IT environment does not necessarily make the entity complex as these are commonly found in even quite small retail entities. We therefore recommend that the IAASB defines both special purpose entities and highly-integrated IT environment more closely to prevent entities being scoped out of ED-ISA for LCE inappropriately.

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

Response: As set out in our response to question 4a above, we are concerned that the proposed standard may not be used.

Given that the proposed standard includes fewer requirements than the full suite of ISAs, and despite the fact that the core requirements of the ISAs have been maintained, we believe that there is a risk that an audit under the ED-ISA for LCEs will nevertheless be perceived as providing a lower level of assurance than an audit conducted under full ISAs. This could result in LCE audits being viewed negatively and hence affect the adoption of the standard.

Therefore, we believe it is fundamental that the IAASB communicates clearly to stakeholders that an audit properly performed in accordance with ED-ISA for LCE will result in the same:

- quality as an audit properly performed in accordance with ISAs;
- level of assurance as an audit properly performed in accordance with ISAs.

Hence, we recommend including an introductory paragraph in the final standard to explain that an audit conducted in accordance with the ISA for LCE does not provide a lower level of assurance than an audit conducted in accordance with the ISAs, but that it is merely tailored to the less complex characteristics of LCEs.

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

Response: The Authority is clearly set out.

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

Response: Yes, the Authority is clear and will inform stakeholders about the scoping of the proposed standard.

(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, this is clear and appropriate. Local legislative or regulatory authorities or standard setting bodies may wish to add their own, more restrictive, rules around the use of the proposed standard.

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

- (a) Specific prohibitions; and
- (b) Qualitative characteristics.

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

Response: With the exception of groups, we agree with the specific prohibitions and qualitative characteristics for applying the ED-ISA for LCE, although the IAASB could clarify whether it expects local jurisdictions to set more clearly defined local limitations. Our views on the exclusion of groups are set out in our responses to Questions 22-26 below.

We make the following additional points:

- The qualitative characteristics could be clarified by incorporating the existing definition of a smaller entity from the glossary in existing IAASB Handbook. *“An entity which typically possesses qualitative characteristics such as: (a) concentration of ownership and management in a single or small number of individuals; and (b) one or more of the following: (i) straightforward or uncomplicated transactions; (ii) simple record-keeping; (iii) few lines of business and few products within business line; (iv) few internal controls; (v) few levels of management with responsibility for a broad range of controls; or (vi) few personnel, many having a wide range of duties.”*

Auditors are generally risk averse and may err on the side of caution when presented with the qualitative characteristics as currently drafted. In addition, other auditors may stretch the qualitative characteristics to fit the criteria for using the ED-ISA for LCE.

- The ED-ISA for LCE should include a definition of a “recognized stock exchange” as this may vary between jurisdictions. This definition will need to indicate whether secondary or tertiary markets are included, given that these can all be accessed by the public in some jurisdictions.
 - We acknowledge that there is no global definition of a Public Interest Entity (“PIE”), however the definition used in the ED-ISA for LCE should be consistent with that used by IESBA. This would provide a baseline which could be supplemented by local jurisdictional requirements. Having different definitions of a PIE in auditing and ethical standards causes confusion among users and stakeholders alike.
 - Excluding an entity from ED-ISA for LCE on the basis of a single accounting estimate with higher complexity seems contradictory to the statement in paragraph A9 that *“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”*. We consider that more flexibility is required in this area and that accounting estimates with higher complexity do not necessarily lead to the conclusion that the entity as a whole is complex.
5. Regarding the Authority Supplemental Guide:

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

Response: Yes, we welcome the Authority Supplemental Guide and consider that it is a useful additional resource. In particular:

- The diagram on page 2 sets out clearly the pathway to using the proposed standard;
- The table on pages 7-11 provides useful additional guidance on the types of entity that are included or excluded from ED-ISA for LCE.

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

Response: We have no other matters to note for inclusion in the guide.

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

Response: We have no other matters to note on the Authority.

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: Yes, we agree with the approach to incorporating the ISA requirements into ED-ISA for LCE. However, the current draft contains requirements that, in our view, are not necessary for performing a quality audit on an LCE. Examples of this include the requirements in ISA 315 to document the Control Environment, the Entity's Risk Assessment Process and Monitoring of Controls, all of which are very often informal in LCEs. We therefore suggest that the IAASB reviews whether all of the requirements in ED-ISA for LCE are truly necessary and considers whether some of them could be removed without compromising audit quality.

One area that we believe needs improvement is the mapping from ISAs to the proposed standard. Currently the mapping documents are too large and difficult to follow. We suggest a more succinct document with the following structure:

- ISA paragraphs included in ED-ISA for LCE
- ISA paragraphs omitted from ED-ISA for LCE
- ISA paragraphs amended in ED-ISA LCE

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

Response: We are supportive of the approach to objectives in the proposed standard. Highlighting the objectives at the start of each Part of the proposed standard enables the auditor to focus on its purpose.

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

Response: Yes, we agree with the approach to these matters outlined in paragraphs 81-84.

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

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

Response: We support the use of EEM and agree with the positioning of the EEM together with the related requirements. We also like the use of italics and highlighting of EEM in blue as this makes it easier for the reader to distinguish it from the requirements.

We recognise and agree with the desire to keep the proposed standard succinct. However, we do believe that more guidance will be required by auditors and we would prefer this to be incorporated into the final standard,

rather than in a separate implementation guide, so as to remain consistent with the principles of positioning EEM with the requirements.

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 incorporation of the ISAs into the proposed standard is clear and well structured. It is easy to read and flows in a logical order through the audit process.

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: The flow of Parts 1-8 is well structured and clear. The documentation and communication requirements are easily identifiable. Respondents from our network firms where English is not the first language considered that ED-ISA for LCE is easy to read. We note a few comments below:

- Paragraph 5.3.1 refers to a) “gross profit and total expenses” and b) “total equity or net asset value”. In respect of a), presumably these are intended as two different measures and so the punctuation needs amending.
 - The references in paragraph 6.5.4 are incorrect and should refer to paragraph 6.5.7
 - Paragraph 8.8.1 requires “all misstatements” to be communicated to management. In our view this should exclude those that are considered clearly trivial.
 - Paragraph 8.8.4 requires all “Uncorrected material misstatements” to be reported to TCWG. Should “material” be removed so that it states, “all uncorrected misstatements that are not clearly trivial should be reported to TCWG”? An uncorrected material misstatement would result in a modification of the audit opinion.
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:

- a) We agree with the approach taken in Part 9 of ED-ISA for LCE. It is clearly laid out and we particularly appreciate the tables on pages 144-148 which will assist practitioners when a modified opinion is being considered. The other tables on pages 150-151 and 153-154 are also very useful.
- b) We agree with the format of the auditor’s report and note that it can be adapted for local legislative or regulatory requirements. However, we are concerned that specifically stating that the audit was carried out under ISAs for LCE may lead to the impression that there is a different level of assurance for these audits. If an audit performed under ED-ISA for LCE results in the same reasonable assurance as an audit

carried out under ISAs, we suggest that the opinion refers to ISAs, not the LCE standard. If this proposal is adopted auditors would need to make clear in their communications with Those Charged With Governance and others that the use of ISA for LCE, does not, as currently drafted, result in a different level of assurance.

- c) We agree with the approach in providing example auditor's reports. This will assist auditors in complying with the proposed standard and promote consistency across firms.

11. With regard to the Reporting Supplemental Guide:

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

Response: Yes, the support material is very helpful and will assist practitioners in applying the standard.

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

Response: We have not noted any other matters for inclusion in the Reporting Supplemental Guide.

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

Response: We have no further comments to add in this respect.

Section 4F – Other Matters

13. Please provide your views on transitioning:

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

Response: We note the provisions of Section 4F on transitioning to ISAs when a matter arises which may render it inappropriate to use the ED-ISA for LCE. We appreciate that, in gaining a full understanding of the client at acceptance/continuation, an auditor should be able to determine whether there any aspects of that client which could scope the audit out of the ED-ISA for LCE.

However, circumstances change and new information may come to light at a later stage in the audit which means that the entity is more complex than first thought. In particular, acceptance, planning and risk assessment are often initially performed well in advance of the balance sheet date. Therefore, a complex accounting transaction late in the financial reporting period may result in an entity having to change its auditing framework when audit work is well advanced.

In these circumstances, having to transition to ISAs in full seems unduly harsh, particularly when, where an audit file is maintained in a software package, the whole file may need to be started from scratch. In addition, this may have significant implications for meeting reporting deadlines.

The need to re-engage with the client and renegotiate fees for the complete audit rather than just in respect of the one issue that has arisen may be particularly problematic for client relations. In addition, auditors may be tempted to make inappropriate judgments about the seriousness of a matter simply to avoid the need to transition.

Similarly, an entity may have qualified as an LCE for a number of years then, in a particular year, it carries out a single complex transaction which, as current drafted, scopes it out of the proposed standard for that year. In the following year it would qualify again as an LCE. This switching between ED-ISA for LCE and ISAs could

be cumbersome for auditors, particularly where software packages use a roll forward facility resulting in the need to move documentation from LCE forms to ISA forms.

Firms which only perform LCE audits may find it burdensome to also have to maintain an ISA methodology in order to address the possibility that an engagement may have to transition.

We appreciate the challenge that supplementing ED-ISA for LCE with additional provisions from the ISAs may pose, particularly when describing the basis upon which the audit has been conducted, but we request the IAASB to reconsider this aspect of the proposed standard and permit supplemental provisions to be incorporated when circumstances require it rather than transitioning to ISAs.

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

Response: The challenges in transitioning to ISAs are mainly practical and therefore we do not consider that any support material would assist in this process.

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

Response: Yes, we agree with the proposals in section 4F regarding future updates and maintenance of the Standard. It is important that auditors who may be using ISAs as well as the proposed standard can apply consistent approaches to auditing on a stable platform. We therefore support the statement in paragraph 146 that to have differing requirements could create confusion for auditors as well as implementation challenges for firms.

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

Response: Yes, early adoption should be allowed, in line with the updates to ISAs, where relevant. However, please see our response to question 21 regarding implementation periods.

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

Response: Yes, we believe that the ISA-800 series should be included in the ISA for LCE because the principles in ED-ISA for LCE could equally be applied to engagements performed under ISA-800.

If the IAASB can include a section of the ISA-800 series in the same timeframe as including a section on Groups, then we would support this. However, the urgency of completing and issuing the final LCE standard is such that we would not want to see its issue delayed by the inclusion of the ISA-800 series. If this is likely to happen then our view is that the ISA-800 series should be considered for a later update to the standard.

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: Yes, we consider that the proposed standard can be used by many firms in our network. A global LCE standard is needed to ensure consistency of approach across jurisdictions. The risk with not having a global standard is that national standard setters move away from ISAs for these entities and issue their own LCE standard which would lead to inconsistencies and dilute audit quality.

However, we have a number of reservations about the proposed standard which we set out in our response to parts (b) and (c) below.

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

Response: The need for an LCE standard has been evident for some time. In drafting ED-ISA for LCE, the IAASB has chosen to maintain reasonable assurance as its benchmark in order to avoid diluting audit quality. Whilst we support this approach and would not want to see a two-tier audit profession, we set out the following potential issues:

- The desire from some stakeholders for a different risk assessment and response model with a lower level of assurance than in the ISAs may lead to a lack of adoption in some jurisdictions because it may not have as significant an impact on the audit work required to be performed as some practitioners desire.
 - Clients may be expecting reductions in fees if an audit is conducted under the proposed standard. However, our view is that significant savings are unlikely because the requirement to obtain sufficient appropriate audit evidence to support a reasonable assurance opinion is the same as in the ISAs. Whilst the ED-ISA for LCE is more concise than the ISAs, the audit work and documentation are likely to be the same whether an audit is carried out under ISAs or the proposed standard.
 - Some practitioners may adopt a very risk averse approach to deciding whether their client fits the criteria and not conduct the audit under the standard through fear of using it inappropriately. This fear could be increased by the need to transition to ISAs, at potentially significant cost, as discussed in our response to question 13
 - Some networks may have member firms that only perform audits for entities that meet the criteria for the ED-ISA for LCE for a local statutory audit. This may then result in issues when a group auditor requires a component auditor to use ISAs for group reporting. The component auditor would need to train a certain number of staff in ISAs just to meet the requirements of group reporting. This could result in extra training and methodology maintenance costs. We suggest a specific amendment to ISA 600 to clarify that component auditors may perform their audits under ED-ISA for LCE, if permitted by the group auditor, and that this will provide the same level of assurance as a component audit performed under ISAs.
 - Firms which perform audits for larger and LCE entities will need to train staff in both ISAs and the proposed standard. This will result in additional cost and could lead to a two-tier staffing model where some personnel only work either under ISAs or the proposed LCE standard. This in turn could have an effect on recruitment and retention of personnel if those who work on LCEs are seen as “second class”, even though the actual audit work is largely identical.
 - Despite the maintaining of reasonable assurance as the benchmark for the audit opinion, users of financial statements may, incorrectly, perceive that an audit under the LCE standard is of a lower quality. As noted in our response to Q10, we are concerned that the reference in the auditor’s report to the ED-ISA for LCE instead of the ISAs, despite there being no difference in the assurance obtained, may reinforce this perception.
 - In order to justify the investment in using the ED-ISA for LCE, both in terms of personnel costs and the need to maintain separate methodologies and software, firms will need a critical mass of such clients. This may result in some firms withdrawing from the ISA market or not adopting the proposed standard.
- (c) Whether there are aspects of the proposed standard that may create challenges for implementation (if so, how such challenges may be addressed).

Response: The need to adapt their methodologies, manuals, documentation and software solutions will be a significant challenge for some firms and networks.

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 have no other matters to raise in this regard.

Section 4G - Approach to Consultation and Finalization

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

Response: The supplemental guidance on Auditor Reporting will be useful for practitioners. In addition to the usual methods of publicising the LCE standard on the IFAC website, we would appreciate webinars prepared by those who drafted the proposed standard to explain the key principles contained in it. These have been used for previous standards and enable attendees to ask questions as they arise.

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

Response: We have no matters to note on translation.

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

Response:

We are aware that, when a new standard is issued, there is normally an implementation period with early adoption permitted to allow for the matters discussed in paragraph 153 of the Explanatory Memorandum. However, the new standard is not mandatory and therefore we do not understand why implementation follows the same pattern as other mandatory standards such as ISA 540 (Revised).

For a mandatory standard, an implementation period is necessary so that Firms and networks have time to adapt their methodologies to the new standard.

The voluntary nature of the ISA for LCE means that an implementation period is unnecessary. Many firms and networks already have simplified approaches for LCEs and they may want to begin using the new standard as soon as possible. Those networks and firms that do not have an LCE approach can take any length of time to adopt it, should they wish to.

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 prohibition on using ED-ISA for LCE for groups should be removed and the assessment should focus on whether it is appropriate to use ED-ISA for LCE for the audit of the entity or group as a whole.

Many groups have simple structures with uncomplicated accounting which means that the ED-ISA for LCE could be used. A common example of this would be a holding company with a single operating company, both of which individually qualify for the ED-ISA for LCE. In this situation, the consolidation accounting entries are unlikely to be complicated and the use of the ED-ISA for LCE would be appropriate. The same can also be true for larger groups with several components but no complex consolidation issues.

In addition, group auditors do not always need to involve component auditors, particularly in the situation described in the previous paragraph where both companies could be located in the same country and audited by the same audit team.

One of the reasons given for prohibiting group audits is that some jurisdictions could potentially not adopt the standard. However, a given jurisdiction could simply prohibit its use for group audits through Jurisdictional Level Limitations. If this were the case, it would not affect any group reporting since the component audit would be performed under ISAs so, if the group auditor is using ED-ISA for LCE, the component audit would still provide sufficient appropriate audit evidence.

More details of situations where groups should be included are set out in our response to Question 23c below.

One additional point is that paragraph 175 is a repeat of paragraph 173.

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: Yes, we would still permit the use of ED-ISA for LCEs if groups are excluded as it will still be a useful standard for standalone entities.

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

Response: We do not gather this information for our network.

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

Response: We would regard the following as indicators that a group is less complex:

- All group companies meet the requirements for using ED-ISA for LCE on a standalone basis.
- Groups where all components have the same functional currency.
- Groups without complex consolidation issues. Note that goodwill and intangibles identified on acquisition would not be considered complex as they are normal consolidation accounting entries. To aid consistency of approach, we suggest that the IAASB provides examples of consolidation issues that it considers to be complex.
- Groups with a centralised accounting function and, whilst there are separate legal entities, the business effectively operates as one legal entity.

The overriding criteria for all of these would be that the Parent and Subsidiaries are all audited by the same auditor, i.e., no component auditors are involved.

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: Our response to Questions 22 & 23 are in effect framed in the context of proxies for complexity and we would therefore favour this solution. We appreciate that using qualitative characteristics would be more in line with the principles of the ED-ISA for LCE. However, the structure of groups is wide and varied and therefore clearly defined rules are needed so that the ED-ISA for LCE is only applied in specified circumstances.

This will have the benefit of reducing both the inconsistencies in application which could occur if the qualitative characteristics route is followed and the situations in which the ED-ISA for LCE is used inappropriately.

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: One other potential proxy is the number of components in a group so that, above a certain number, use of the proposed standard would not be permitted. Our other suggested proxies for complexity are set out in our response to Questions 22 & 23.

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: If groups are included, our view is that the requirements should be included in each part of the standard, i.e., option b. The advantage of this is that it retains the integrity of the structure of ED-ISA for LCE. However, we note that, if no component auditors are involved, the additional requirements should be minimal.