

# Supplement 2-19 to Agenda Item 6

**Audits of Less Complex Entities – ED-ISA for LCE –Q22 – 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**

## **Section 5 – Group Audits\Question 22 - Views on whether group audits should be excluded from the scope of ED-ISA for LCE\1) Should be Included\1a) Supportive Comments to Inclusion**

### **3. Regulators and Audit Oversight Authorities**

#### **Botswana Accountancy Oversight Authority**

Group Audits should be included in the scope of ED-ISA for LCE provided they meet the definition/criteria for LCE. This will allow Auditors to use the standard holistically, without having to refer to ISAs for Group Audits. It will also allow its use for less complex groups all encompassed in one standard. The purpose of the ED-ISA for LCE is to make auditing easy with less work compared to the ISAs, so all areas of auditing should be covered including the area of Group audits. However, in situations where a Group (Holding Company) does not meet the definition/criteria for LCE, all entities in the Group should use ISAs instead.

#### **Independent Regulatory Board for Auditors (IRBA)**

##### **Group Audits**

Group audits are not always complex by default. There are less complex groups, such as groups with dormant entities, small groups with a holding company and one operating entity, or groups that may be exempt from consolidating through IFRS 10, paragraph 4. With appropriate guidance on the nature of groups that are appropriate to audit as an LCE, group audits could be included in the proposed standard.

Selected group audits may be included in the scope of the proposed standard.

In an audit of groups, there are many less complex groups (except for the fact that they are groups) that the proposed standard could be appropriate for, and examples are:

- Owner-managed groups where subsidiaries are created for a specific purpose, i.e. to split the operations of the business for easier reporting rather than specifically dealing with more complexities.
- Where the consolidation process is straightforward and there are no complexities.
- Where there are similar control environments throughout the group.
- Groups consisting of many entities that are dormant or with limited activity.
- One holding company with multiple properties, each held in a company.
- Limited intragroup transactions.

Furthermore, in the public sector there are certain group structures that are created due to public sector legislation that is not necessarily complex and where all entities in the group would be audited by the same public sector auditors, i.e. the parent company, subsidiaries as well as the consolidated financial statements, limiting the risk of a gap in understanding the entity, internal controls and complexity of the group structure.

Therefore, excluding group audits from the scope of the proposed standard could potentially impact negatively on the adoption of the proposed standard.

### **4. National Auditing Standard Setters**

#### **American Institute of Certified Public Accountants**

Aside from the concerns regarding application of the standard, we strongly disagree with certain issues being prima facie indicators of complexity if the IAASB determines to retain the Authority Document. For example, we do not agree that group audits are necessarily complex

#### **Australian Auditing and Assurance Standards Board**

A consistent view we heard was that the authority of the proposed standard is too narrow and illogical, particularly because the proposed ED-ISA for LCE Standard is designed to achieve reasonable assurance and includes the same requirements as the ISAs, but still can't be used, for example, on any listed entities or group audits.

**AUASB Response:**

Refer to paragraph 11(c) of the attached covering letter.

Further to our response on this issue in Question 4, the AUASB does not support the exclusion of group audits in the proposed ED-ISA for LCE Standard. We received very strong feedback on this point from all types of Australian stakeholders. The AUASB considers that the blanket prohibition disallowing the use of the proposed ED-ISA for LCE Standard on group audits is not justified. Our investigations on this issue highlighted that not all group audits are complex, and the exclusion of group audit engagements, particularly considering the recent changes made to the revised ISA 600, will restrict the usefulness of this standard for many 'simple' groups. The AUASB considers that the IAASB could establish some clearer criteria around which groups may be included in the scope of the standard.

The AUASB also does not support the exclusion of group audits in the proposed ED-ISA for LCE Standard. We received very strong feedback on this point from all types of Australian stakeholders. The AUASB considers that the blanket prohibition disallowing the use of the proposed ED-ISA for LCE Standard on group audits is not justified, especially in the case of small, non-complex components of a group engagement. Our investigations on this issue highlighted that not all group audits are complex, and the exclusion of group audit engagements, particularly considering the recent changes made to the revised ISA 600, will restrict the usefulness of this standard for many 'simple' groups. The AUASB considers that the IAASB could establish some clearer criteria around which groups may be included in the scope of the standard.

### **Austrian Chamber of Tax Advisors and Public Accountants (KSW)**

We would encourage to include Group Audits in the scope of ISA LCE as it limits the applicability of the ISA LCE standard in practice. Our answers to questions 23 to 26 should be understood under the recommendation to include Group Audits in the scope of ISA for LCE.

### **Canadian Auditing and Assurance Standards Board**

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.

**What stakeholders told us**

Many stakeholders supported including group audits in ED-ISA for LCE.

As noted above in the discussion on Authority, group audits do not always exhibit characteristics of complexity. For example, there are many instances in Canada where group structures are set up for tax planning or risk management purposes and include a small number of non-complex entities with simple operations. A common example is a group where one company holds the real estate, one holds investments, and one includes the operations.

**AASB views and recommendations**

We believe that group audits should not be scoped out completely. Doing so would preclude many audits of LCEs in Canada from using the standard.

We believe that auditors should be able to determine whether the group structure, group control environment and group accounting processes contribute to the complexity of an entity.

We suggest the IAASB include less complex group audits in the scope of ISA for LCE. We believe this can be accomplished in the qualitative characteristics by describing complex and non-complex group audit circumstances.

**What stakeholders told us**

Most stakeholders disagreed with scoping out group audits entirely in the Authority of ED-ISA for LCE. They noted that there are many non-complex group audits in the Canadian environment that could be LCEs, and therefore, should be included in the scope of ED-ISA for LCE. Non-complex groups may include a holding company and its operating entity or those that have simple group structures.

**AASB views and recommendations**

Like our stakeholders, we do not agree with scoping out group audits entirely. We have included detailed comments in our responses to Questions 22-26.

### **Hong Kong Institute of Certified Public Accountants**

Our stakeholders have a strong view that the proposed standard should include group audits in its scope. In Hong Kong, it is common that a group of entities having simple operations would otherwise meet the authority of ED-ISA for LCE.

### **Indonesian Institute of Certified Public Accountants (IAPI)**

Group audits have specifically been excluded from the scope of the proposed standard. However, we observed that many stakeholders have been quite vocal in expressing their desires for group audits to be included, citing the fact that the exclusion of Group audits would significantly limit the use of the standard.

We agree with the IAASB's decision and rationale for excluding group audits which have a complex characteristic in nature. We understand that group audits generally include an inherent level of complexity. However, there are also instances where the group is relatively straight forward and the audit does not involve complex matters which are consistent with the overall purpose and determination of the appropriateness to use the ISA for LCE for that audit. We therefore encourage IAASB to reconsider not totally excluding the group audit from the scope. Instead, we suggest that IAASB still includes group audit in the scope as long as it meets the qualitative characteristic of audits that meet the less complex criteria.

### **Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)**

We very much agree with the IAASB's approach of not addressing group audits within the draft LCE standard until ISA 600 (Revised 2021) is issued and providing an opportunity to stakeholders to address the issue in the responses to the Explanatory Memorandum because, as the LCE standard was being drafted, there were ongoing discussions at the IAASB about the scope of application of ISA 600 that could have an impact on the scope of the LCE standard. While in the older ISA 600, the application material in paragraph A2 pointed to the inclusion of branches and divisions to being within the scope of ISA 600, depending upon how the group is structured, and paragraph 10 of the definitions section of ISA 600 referred to the consolidation process, there continued to be some uncertainty (at least among some regulators and practitioners) about the scope of application of ISA 600 with respect to branches and divisions. Now ISA 600 (Revised 2021) has been finalized by the IAASB and clarity has been achieved around its scope of application: even if financial statements do not need to include the financial information of consolidated subsidiaries, entities accounted for by the equity method, or entities proportionately consolidated, if the financial statements of an entity include the financial information of branches and divisions by means of a consolidation process, then those financial statements are group financial statements. This implies that there is more clarity about the fact that many entities that would otherwise qualify as LCEs would have group financial statements as defined in ISA 600 (Revised 2021). Furthermore, there are many simple groups and therefore simple group audits for which a scalable approach to the audit as set forth in the LCE standard would be appropriate. For these reasons, we have concluded that certain kinds of group audits relating to simple groups should be included within the scope of the LCE standard.

With the exception of the exclusion for group audits (see our responses to questions posed in Section 5 below) and the matters explained below, we agree with the specific prohibitions and that these need to be supplemented by local authorities or standard setters.

### **Japanese Institute of Certified Public Accountants**

We believe that it is implementable, except for the part relating to the exclusion of group audits from the scope. Please refer to Questions 22 through 26 regarding group audits.

### **Malaysian Institute of Accountants**

Response: Group audits should be included because there may be many instances of less complex entities that are part of groups and auditors of those entities would require guidance on how to, for example, fulfil the requirements of component auditors. A supplementary module for consolidation will be needed in this respect.

The limitations relating to group audits are further discussed below. There are practical challenges to be considered. We believe the standard should be principles-driven rather than merely looking at a corporate structure which in many cases can be relatively straightforward.

### **New Zealand Auditing and Assurance Standards Board**

The NZAuASB considers that there are group audits that are non-complex in nature and therefore there is significant concern regarding the blanket prohibition of group audits from applying the ED-ISA for LCE. The exclusion of groups could potentially impact the uptake of the standard once issued, undermining its usefulness and applicability in New Zealand.

For example, in the public sector, the exclusion of group audits would mean that schools that have a small fundraising trust as a controlled entity, would be prohibited from using ED-ISA for LCE. Other examples of non-complex group structures that could fit the criteria of LCE include entities that have a subsidiary that trades or hold assets, smaller for-profit entities with dormant subsidiaries, investment holding parent with a trading subsidiary, etc.

Our stakeholder feedback also indicates that the LCE standard could be useful for the audit of Māori entities, which have become major players in the New Zealand economy since the settlement of indigenous grievances which began in the 1990s. Many of those entities have been giving careful consideration to how they report on their work (in both financial and non-financial terms) to their tribal members and other stakeholders, with assurance being an important element of their reporting. Most Māori entities have a group structure, for example having trading subsidiaries and charitable trusts sitting under a governing tribal council. The feedback suggested that it would be unfortunate if the LCE standard were not available for such groups where characteristics of complexity are not present.

The NZAuASB considers the specific prohibitions in ED-ISA for LCE to be appropriate, except for the specific prohibition on group audits. The NZAuASB considers that there are group audits that are less complex in nature and should be permitted by the scoping of the proposed standard. Group audit considerations are discussed in Question 22 below.

### **Public Accountants and Auditors Board Zimbabwe**

For groups we also believe blanketly classifying group as complex is not necessary. There are some group, especially if there is no outside shareholder in the group companies that will make them complex. An example is a company that has several properties which it leases out. The structure for tax or other reasons is such that each property is housed in a separate company. But that structure the company is already a group but there is nothing that significantly increases the complexity had all the companies been in one group.

Response: Group audit should be included. Factors that makes a group complex or less complex should be the deciding factor and not just a group structure. There are groups whose operation are ffaily straight forward and not complex. In some instances the structure is only to achieve a particular efficiency for example admin efficiency/tax efficiency but operations are not complex at all.

### **Royal Netherlands Institute of Chartered Accountants (NBA)**

Group audits are not necessarily complex. If the group audit team performs all audit procedures by themselves or only one or a few component auditors are involved, this should be included in this proposed LCE Standard.

## **5. Accounting Firms**

### **Azets Audit Services**

However, we strongly disagree with the prohibition in respect of audits of group financial statements. As noted above, the complexity of many UK groups and their component parts is low. This may not be the case in other jurisdictions; hence it is recommended that this is removed from ED-ISA for LCE Specific Prohibitions Level and that it should be left to Jurisdictional Level Limitations based on the nature of groups prevalent locally.

In the UK, preparation of group accounts is not a proxy for a group, or its components, being complex. Whilst this may not be the case in other jurisdictions, our experience is that it would be appropriate to include group audits within the scope of ED-ISA for LCE. We therefore consider that the audit of groups being scoped out at the ED-ISA for LCE Specific Prohibitions Level is inappropriate and recommend that this should be left to Jurisdictional Level Limitations based on local factors.

Yes. The qualitative approach taken to scoping appears implementable in an international sense. We do not agree that the scoping out of groups at the ED-ISA for LCE Specific Prohibitions Level and that this should be left to Jurisdictional Level Limitations based on the nature of groups prevalent locally. We audit many UK groups, for example, that are less complex at the component and collective level. This may be because of there being different drivers to incorporation in a group structure in the UK to that seen in other jurisdictions, leading to greater prevalence of less complex groups. In the UK, we believe that scoping out groups could undermine the case for adoption of the ED-ISA for LCE on a firm-wide basis.

### **Baker Tilly International**

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.

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.

### **BDO International**

The specific prohibition on all group audits is likely to capture some entities which are simple in every respect except for the fact that it is a group audit. We believe that an outright prohibition on all group audits should be removed. Our response below in question 22 lists some examples of groups that are not complex.

The prohibition on post-employment benefits will be difficult to implement consistently in the absence of a definition of 'post-employment benefits'. Specifically, would post-employment benefits include defined contribution benefit plans which are considerably less complex than defined benefit plans?

The exclusion of group audits in paragraph A.7.(d) based on the elevated risk associated with these entities, rather than necessarily elevated complexity, means that it would effectively exclude a large number of less complex entities from its scope (e.g., junior exploration groups, group structures created solely for the purpose of tax structuring, and so on). We believe that simple group audits should be allowed to use the proposed LCE standard. Perhaps guidance for defining simple group audits could be included as EEM (e.g., no cross-border group audits, no reliance on component auditors as the group auditor audits all significant components, etc.).

We believe that excluding all group audits from the LCE standard is not appropriate. There are certain group structures that are not complex, particularly where all members of the group are in one jurisdiction (e.g., a holding company with one operating subsidiary; a subsidiary that holds the assets used by the operating company; certain group structures that are created only for tax planning purposes where there is common management of all entities; groups where the group auditor audits all components all of which could be performed under the LCE standard, etc.). The definition of 'group financial statements' used in the ED is taken from ISA 600 (Revised), and so captures all financial statements that "include the financial information of more than one entity or business unit through a consolidation process", which means that any group structure is out of scope (unlike under the extant ISA 600, which defines group financial statements as those that include "the financial information of more than one component" and which would therefore permit a situation in which multiple entities exist but operate as one component to not be treated as a group audit).

We accept that often, group structures indicate complexity for management and for the auditor. For groups with more than one operational location to consider, particularly where different component auditors will be used, and for cross-border components subject to different laws and regulations, we agree those situations are complex and the LCE standard should not be used. However, not all groups exhibit those characteristics and excluding all groups from using the LCE standard may well render the standard unusable in some jurisdictions.

As discussed above in question 4, we do not believe that all group audits should be excluded from the scope of the proposed LCE standard. There are a significant number of audit engagements involving group audits even for LCEs. The approach of excluding all group audits from the ISA for LCE substantially reduces the application of the proposed LCE standard.

There are many examples of group audits that are not complex that should be able to use the LCE standard, including:

Groups that consist of one or more holding companies (which hold investments or property, plant and equipment)

Wholly-owned components with little or no revenue-generating operations

Certain group structures that are done only for tax planning purposes; the consolidated entity is operated as a single unit with common management of all entities in the group. As the complexity of the group structure increases, risk also increases, so very complex group structures should not be able to use the LCE standard

Trusts with corporate trustees

A sole proprietor business with a local trust holding the beneficial interest

Groups with dormant components

Groups where the group auditor (group engagement partner at a minimum and perhaps also the engagement manager) audits all components, all of which are performed under the LCE standard (i.e., no use of other component auditors).

Scoping out all group audits – we believe that some simple group audits should be able to use the LCE standard.

## **Deloitte Touche Tohmatsu Limited**

### **Prohibition of Use for Group Audits**

We do not believe that being a group automatically means there is complexity in the audit. Many small and simple group structures are only established for tax or other non-business-related reasons (e.g., estate planning). We believe that excluding all group audits from the proposed standard will considerably reduce its applicability and we recommend that the IAASB strongly reconsider this prohibition and instead add further considerations for auditors to evaluate when assessing the applicability of ED-ISA for LCE in a simple group audit situation. Such considerations could include the number of components involved in the group, the number of jurisdictions, and the complexity of the structure.

## **Duncan & Toplis Limited**

As noted above, group should not automatically be prohibited from inclusion. Some groups are not complex.

We are strongly opposed to the blanket prohibition on group companies. We believe some groups are less complex. No other comments on this area.

We strongly believe that a blanket prohibition on groups not being able to adopt the standard will limit the usefulness of the standard. Many groups are less complex – for example a simple 2 entity group, holding company and subsidiary (assuming this kind of entity is covered by the definition) is not inherently complex due to its legal structure.

## **Ernst & Young Global Limited**

As discussed above, we believe group audits should be included in the scope of ED-ISA for LCE based on the proposed Authority in the standard. We do not believe that the IAASB can make a blanket statement that group audits inherently exhibit characteristics of complexity within an entity. Many LCEs are a group and will require a group audit. The determination of the complexity of a group audit needs to be determined

by the auditor using professional judgment and considering the specific characteristics of the entity. For example, if an LCE group operates entirely within the same jurisdiction, has only one or two components that have the same IT environment and no segments, as well as meets the other qualitative considerations set forth in the authority, we believe that it would be appropriate for such audits to apply the ED-ISA for LCE.

We agree with the specific prohibitions related to the use of the ED-ISA for LCE except for the prohibition of group audits. We believe that the use of the ED-ISA for LCE for group audits should not be specifically prohibited in the ED-ISA for LCE as proposed. We do not believe that a blanket statement can be made by the IAASB to say that group audits inherently exhibit characteristics of complexity within an entity. Refer to our response to Q3 for additional details.

We also believe that the use of the ED-ISA for LCE for group audits should not be specifically prohibited based on the proposed Authority in the standard. The fact that an audit is a group audit does not inherently make the audit exhibit characteristics of complexity. For example, an audit can be a group audit and only have a limited number of components (all of which are less complex) that operate within the same jurisdiction or country. As a result, we believe that group auditors should be allowed to conclude on the use of the ED-ISA for LCE in a group audit or for “in-scope” components. We believe that components that have a non-complex business model and operations could use the ED-ISA for LCE in many circumstances for group reporting purposes and statutory reporting purposes.

If group audits are excluded from the ED-ISA for LCE, we believe the IAASB needs to address situations when a component team is using the ED-ISA for LCE for statutory audit purposes (i.e., will they be permitted to use the ED-ISA for LCE for audit work to support the group audit (provided the group auditor agrees) under the Authority of the standard?)

We would like to note that with our recommendations set forth in our response to Q1(a) to reduce the scope of applicability and significantly scale back the Authority (option 1), we would expect that the ability to implement the Authority and the distinction from the ISAs would both be enhanced. We also would expect group audits to be scoped out of this scaled-back version of the ED-ISA for LCE. However, under our recommendation to repurpose the ED-ISA for LCE as non-authoritative guidance (option 2), we believe that group audit guidance should be included.

We do not believe it is appropriate to exclude group audits, which can be less complex in nature.

### **ETY sas**

Our view is that group audits should be included whereas that groups fit the basic premise of ED-ISA for LCE related to the less complex entities characteristics.

We strongly encourage the IAASB to modify section A Authority of the [Draft] ISA to withdraw group audit exclusion (c) and edit the wording of the name of the standard to reflect that choice and amend any other relevant wording accordingly.

### **Grant Thornton International Limited**

As noted in our response to question 4 above, we are of the view that it is inappropriate to include a blanket exclusion of the application of the Proposed Standard to group engagements. Not all groups are complex, there are many types of simple or straightforward groups that exist, all for legitimate business reasons. In our view the proposed standard could be applied to the following types of group audits without compromise to quality:

Groups that comprise a holding company and one (or few) operational subsidiary(ies) and that subsidiary(ies) qualifies to be audited under ED-ISA for LCE;

Groups that comprise a holding company, one (or few) operating subsidiary(ies) and dormant subsidiaries and those subsidiaries qualify to be audited under ED-ISA for LCE;

Groups that do not engage in multiple or complex intragroup transactions;

Groups that are all located in the same jurisdiction and all entities that comprise the group qualify to be audited under ED-ISA for LCE;

Groups that are primarily audited by one group engagement team or the same office, i.e., the involvement of component auditors is not necessary.

Authority of ED-ISA for LCE

We have two issues with the Authority of the Proposed Standard. Firstly, and more importantly, is the prohibition of the use of the Proposed Standard for group audit engagements. Many audit engagements performed by firms are audits of the financial statements of a group. We believe that such a prohibition, along with the lack of clarity regarding the use of ED-ISA for LCE for the audit of a component of a group audit engagement, where that component satisfies the criteria to use ED-ISA for LCE, will have a significant detrimental effect on the adoption of the standard. For example, local law and regulation often requires that a statutory audit of a group be performed. In some instances, a group merely comprises a parent company that holds an investment in a subsidiary, which is the operating company. This structure does not make the group complex in and of itself, and as such we believe that absent other factors outlined in ED-ISA for LCE that may make the parent company or operating company complex, it would be appropriate to apply ED-ISA for LCE to the group. We understand that these types of groups are prevalent in a number of jurisdictions.

We do not agree with a blanket prohibition to the use of the Proposed Standard for group audits. We are of the view that there are many types of group engagements for which use of the proposed standard would be appropriate. See our response to question 22 below for more detail on the types of groups for which we believe that it would be appropriate to apply ED-ISA for LCE.

We expect that the prohibition of using the standard for group engagements will have a significant detrimental effect on its use. It may affect the adoption of ED-ISA for LCE both by specific jurisdictions and by specific firms, even when its use is permitted by the local jurisdiction. Further, it may promote the continued development of local standards for LCEs that may be applied in group situations.

### **HLB International**

We also do not agree with the exclusion of an audit of group financial statements in paragraph 51(d) as a group audit, is not, by itself, a proxy for complexity.

### **KPMG IFRG Limited**

#### **Group Audits**

We propose that group audits be scoped into the LCE ISA, as we believe there are groups that are not “complex”, with few components and which are located in a single jurisdiction, and exclusion of such groups from the standard may significantly reduce the population of entities to which the LCE ISA can be applied. We believe that much of the potential complexity in conducting a group audit, which ISA 600 is designed to address, is in connection with the use of component auditors, i.e., instructing them; being involved in their work; communicating with them, and reviewing their work.

Accordingly, we recommend that group audits be included within the scope of the standard, by establishing a clear boundary that scopes out group audits when component auditors would be used, but scopes these in otherwise, subject to the other qualitative characteristics that are proxies for complexity. These characteristics could also be strengthened in the standard to refer to examples of group-specific matters that are additional “proxies for complexity” and which underpin decisions by group auditors to use the work of component auditors, such as the number and location of components; whether components are located in jurisdictions which have different language, culture, business practices, fraud risks, and the complexity of the consolidation etc. Such strengthening to drive appropriate application would be expected to address any concern that auditors may attempt to avoid use of component auditors simply to stay within the scope of this standard.

We agree with the specific prohibitions proposed by the IAASB as we consider that entities exhibiting these attributes should not be considered to be LCEs for purposes of application of this standard. Refer to our comments in Section 5 regarding group audits.

We understand the IAASB’s basis for initially concluding that being a group is a proxy for complexity and therefore why it has excluded group audits from the scope of this ISA. However, we welcome the fact that the Board is open to including groups within the scope of the standard.

We propose that group audits be scoped into the LCE ISA, subject to the other qualitative characteristics that are proxies for complexity, as we believe there are groups that are not “complex”, with few components and which are located in a single jurisdiction, and exclusion of such groups from the standard may significantly reduce the population of entities to which this can be applied. We consider that much of the potential complexity in conducting a group audit, which ISA 600 is designed to address, is in

connection with the use of component auditors, i.e., instructing them; being involved in their work; communicating with them, and reviewing their work.

### **Mazars**

“Group audits” have been scope out, but there could be group audits that are non-complex – therefore, the assertion of the Board that group audits should always be scoped out is too prescriptive.

Yes, we believe that group audits need to be included in ISA for LCE. There are many groups that are not complex and are formed based on other reasons than extensive M&A activities. Group audits should be allowed for non-complex groups.

### **MHA Monahans**

Apart from group audits (see Q22) we agree with the scope of the ISA for LCE.

We strongly think that group audits should be included in the scope of ED-ISA for LCE. The whole purpose of the standard is to recognise that most audits globally are simple in nature in comparison to large and listed audits. This is also true for group audits.

### **MNP LLP**

We believe that group audits should be included in the scope of ED-ISA for LCE. An entity having components does not necessarily add to the complexity of the entity. There will be group entities that are deemed to be complex and others that are less complex. Auditors should be able to make the determination as to whether the group structure, group control environment, and group accounting processes contribute to the complexity of an entity.

### **Moore Global Network Limited**

In terms of the exclusion of Group Audits, we do not agree with the decision to scope them out wholesale. We believe that if the idea of a differentiated subset of requirements is principles based then blanket exclusion off all group audits undercuts that. There might be less complex groups that could apply the LCE standard effectively. The proposal further considers whether groups falling within certain defined criteria should be included and requests thoughts on setting thresholds for groups via option (a) complexity by proxy or (b) qualitative criteria. We believe it is worth exploring both these ideas further and encourage the IAASB to take some time to properly evaluate the options.

The exclusion of groups is also a concern, as there could be a less complex group structure, for example a group for investment properties.

### **Nexia International**

Lastly, we disagree with the IAASB’s proposed exclusion of group audits (ISA 600), noting that less complex group situations are quite common.

Suggested criteria for inclusion could be:  
components only operate within one or few (similar) jurisdiction(s),  
no significant use of component auditors, and  
local know-how is not essential.

### **Nexia Smith and Williamson**

We believe that group audits should be included in the scope of the Proposed Standard. Being a member of a group is not necessarily a proxy for complexity. We audit a number of straightforward groups where there are few entities, all are within the same jurisdiction and no component auditors are involved. We would not consider these complex.

### **Price Bailey LLP**

Group audits should not be excluded. We audit a number of groups where the parent and all of the subsidiaries individually would meet the definition of being less complex and where the consolidation is not complex therefore it doesn’t make sense to exclude all groups from using this standard.

Groups should not be excluded. There are a number of less complex groups within the UK. We have a number of clients who are a part of a group and where we would consider the group as less complex, for example charities with trading subsidiaries, and simple group structures where you have a holding company owning the property and then a number of trading subsidiaries.

The exclusion for all groups is inappropriate in particular in the UK when there are a number of group entities. This restriction will impact us from using the LCE standard.

### **RSM International**

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;

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.

### **Sayer Vincent LLP**

We disagree with the view noted in paragraph 62 that the group audits inherently exhibit characteristics of complexity within an entity meaning that all group audits are excluded from use of ED-ISA for LCE. Charities in the UK may run a small number of activities through a trading subsidiary for taxation purposes but in reality this adds very little complexity to the systems or financial processes of group operations. These activities are usually accounted for using the same systems and control processes – they are just run through a separate ledger to provide compliance with the tax rules.

Therefore excluding groups would exclude a number of charities that are no more complex than similar single-entity companies.

## **6. Public Sector Organizations**

### **Auditor-General of New Zealand**

The Auditor-General audits several groups that are less complex entities. In these instances, the presence of subsidiary entities does not add any significant complexity to the audit. Consequently, we consider that the scope of the proposed standard should include simple group audits.

With reference to the specific prohibitions, we agree with the proposed limitations except for the limitation on the audit of group financial statements. We comment on the group audit prohibition in our response to the questions under Section 5.

## Australian Council of Auditors General

of groups.

Whole of government accounts are prepared in each ACAG jurisdiction and represent a group audit. This will immediately exclude the application to the majority of state and territory public sector entities. There are other examples of group audits such as within health sector entities, and local governments that have consolidated controlled entities. ACAG has scenarios where an audit of a public sector entity under the proposed ED ISA - LCE would be consolidated into a reporting entity audited under the full suite of Australian Auditing Standards (ASA). Such an audit may not satisfy the ASA group audit requirements.

ACAG has concerns that offices may be unable to apply the ED ISA - LCE based on certain specific prohibitions within it. The ED ISA - LCE states that it cannot be applied to audits:

### Office of the Auditor General of Alberta

We do not agree that if “the audit is an audit of group financial statements,” it should be specifically prohibited from using the ISA for LCE standard. If each of the consolidated entities (component entities) would qualify to use the LCE standard, we believe the group audit should qualify to use the LCE standard. In the public sector, there are many LCEs that require audited financial statements for public accountability purposes and prohibiting them simply because they are a group audit adds unnecessary costs.

We do not agree that if “the audit is an audit of group financial statements,” it should be specifically prohibited from using the ISA for LCE standard. If each of the consolidated entities (component entities) would qualify to use the LCE standard, we believe the group audit should qualify to use the LCE standard. In the public sector, there are many LCEs that require audited financial statements for public accountability purposes and prohibiting them simply because they are a group audit adds unnecessary costs. Therefore, ISA for LCE should include group audits.

## 7. Professional Accountancy and Other Professional Organizations

### Accountancy Europe

We agree with specific prohibitions except group audits (see our response to questions 22 to 26).

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

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

### Association of International Accountants

However, the specific prohibition in respect of groups may be too restrictive and is likely to be a major deterrent in the overall uptake of the standard. AIA does not agree with the IAASB’s view that all groups are inherently complex and hence should all be prohibited from applying the proposed standard.

While there are clearly groups with diverse operations and subsidiaries that do have complex operations and/or transactions (such as material and complex financial instruments and/or material and complex accounting estimates) who will clearly be outside the scope of the proposed standard, there are groups which are inherently less complex.

### Association of Practising Accountants

As previously noted we do not think that groups should be excluded. There are a number of less complex groups within the UK including charities with trading subsidiaries, and simple group structures where you have a holding company and a number of less complex subsidiaries.

Group audits should not be excluded. The firms within the APA audit a number of groups where the parent and all of the subsidiaries individually would meet the definition of being less complex and where the consolidation is not complex therefore it doesn't make sense to exclude all groups from using this standard.

The exclusion of all groups is inappropriate and will impact firms using this standard (see further details below)

### **Belgian Institute of Registered Auditors (IBR-IRE)**

The audit of a group, the components of which on an a standalone basis meet the requirements of a LCE should be included in the scope of the ISA for LCE. Indeed, many less complex entities are components of a group and thus the practical applicability of the ISA for LCE would be reduced if components of a group audit were to be excluded.

If a group as a whole and all its individual components would meet the criteria for not being considered complex, the audit of consolidated accounts of the group and its components should therefore be made possible under the ISA for LCE.

We do not agree with the prohibition for the group audit: if the group auditor - in consultation with all component auditors, if any - agrees that all individual entities in the group are not complex, it should be possible for the group to apply the ISA for LCE everywhere. There are a lot of smaller groups which are not complex, hence we see no reason why this should by definition be excluded.

### **Chamber of Auditors of the Czech Republic**

We agree with specific prohibitions except group audits (see our response to questions 22 to 26)

### **Chamber of Auditors of the Republic of Azerbaijan**

YES, group audits should be included in the scope of ED-ISA for LCE.

### **Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants**

While we believe the authority is implementable as written, we encourage the board to consider the impact of the exclusion of groups (see the below response to part 3(b)).

The exclusion of all group audits is largely not supported by our stakeholders. Practitioners identified that there can be many non-complex groups as consolidation is not necessarily complex and that, particularly given that the recently approved ISA 600 (Revised) now expands the definition of groups, excluding all groups would make the standard less attractive to use as there would be too many circumstances where small practitioners would still have to use the full ISAs for some of their engagements. We believe that the board should include qualitative characteristics that would allow less complex groups to be audited under the standard.

A clear majority of our stakeholders support allowing less complex groups to be audited using ISA for LCE. The need to perform a consolidation is not, in itself, an indication of complexity, and there are very simple groups in existence.

### **Chartered Accountants Ireland**

In our view, it is essential that group audits are included in the scope of the ED-ISA for LCE. In Ireland, group structures are used extensively by private businesses. A large proportion of these group structures would not fall into the specific classes of entities or exhibit the qualitative characteristics that would prohibit the use of ED-ISA for LCE. Statutory audits are required under legislation in Ireland for all but the smallest of these groups. If the standard when issued does not include group audits in its scope, we expect that this will significantly limit the use of the standard in Ireland.

We do not agree with certain of the proposed limitation to the use of the ED-ISA for LCE. Specifically, we disagree with the exclusion of groups and certain of the entities excluded by paragraph A.7.(c) we have outlined our reasons in response to question 22.

We do not agree with the exclusion of the audit of group financial statements from the scope of the standard. There are many examples of non-complex groups in the Republic of Ireland. See further comments in response to question 22.

## Confederation of Swedish Enterprise

Response: We strongly disagree with the exclusion of audits of group financial statements. We consider that the argument presented for the prohibition (that group audits inherently exhibit characteristics of complexity within an entity) is not convincing. We believe that the consolidation process to draw up group financial statements is very basic and well understood by auditors. We acknowledge that audits of business combinations, intra-group transactions etc do involve a number of issues to address for the auditor, but we think that this in itself should not scope out audits of group financial statements.

Scoping out audits of group financial statements would limit the scope of application too much. Many small or micro entities without complex qualitative characteristics do belong to groups. One example is that entities in a jurisdiction might have a real estate in a subsidiary (as the lone asset). If the real estate would have been on the balance sheet of a single entity and the entity would have passed the ISA for LCE test regarding complexity, then the standard could have been applied. It then seems reasonable that a group audit in this case should not be scoped out.

We consider that instead of excluding audits of group financial statements from ISA for LCE, there should be a test to assess whether the entities in the group can be considered to be less complex entities. If all entities within the group pass this test, then also the group financial statements should be possible to audit applying ISA for LCE.

## CPA Australia

We have heard justification from some stakeholders for the inclusion of less complex listed entities and group audits in the scope of the standard. We consider it would be helpful to include less complex group audits provided that the entities involved in the group meet certain criteria that could include size, complexity, and the reporting structure of those entities. If less complex group audits are included, additional guidance outlining scenarios involving less complex group audits, may be required to support auditors. However, we note that less complex groups could easily become more complex as their circumstances change. Auditors of listed entities and groups would typically be of a sufficient scale or well enough resourced to be able to scale the ISAs as needed. There are many less complex audits of micro entities, associations, small charities and trust accounts for which this standard is clearly needed, most of which are unlikely to become more complex over time.

We support the inclusion of group audits under the condition that (1) all entities belonging to the group are less complex, and (2) that the less complex group audit does not involve component auditors. Whilst overall we suggest limiting the LCE standard to the most simple entities, many LCEs group structures do not reflect their operational simplicity.

## CPA Ireland

CPA Ireland agrees that the scope of the standard should provide for specific prohibitions and that those provided for are appropriate with the exception of group audits. It is considered that there may be instances where a group would be “less complex” and the use of the ISA for LCE may be appropriate.

We believe that group audits should not be excluded from the scope of this proposed standard.

We consider that the prohibition on the use of the standard for Group Audits is inappropriate. We consider that there would be instances where the use of the standard for some less complex group audits would be appropriate, particularly for those group audits where a component auditor is not necessary. It may be appropriate to provide requirements in this regard at a jurisdictional level.

## Eurasian Group of Accountants and Auditors

We do not believe that group audits should be excluded from the scope of the ED-ISA for LCE. There are groups that have a simple and transparent structure, simple business processes, simple accounting procedures. The existence of several simple components within a group located in the same jurisdiction should not result in the exclusion of a group audit.

## European Federation of Accountants and Auditors for SMEs

Specific prohibitions – we agree with these except for the exclusion of audits of group financial statements. Groups are not necessarily more complex than individual entities. This is especially the case in the following

situations: where the management and ownership are concentrated in the hands of very few people; where all the components are operating in the same jurisdiction; where all components are auditing by the same audit team; where the applicable financial reporting framework is straightforward; and where the group has just one subsidiary that holds a property or single large asset. Furthermore, if groups are scoped out then many LCEs that are part of a group may be required to conduct audits in accordance with full ISAs. We also note that the closest equivalent to this standard in the financial reporting world is the IFRS for SMEs and this scopes in both consolidated and separate financial statements. Hence, we suggest that groups be scoped in.

## **EXPERTsuisse**

In our view it is crucial that the standard is also applicable for less complex group audits to reflect the needs of several jurisdictions and to consider proportionality of costs and benefits for audits of small groups.

### **Group Audits**

Furthermore, in our view it is crucial that the standard is also applicable for less complex group audits to reflect the needs of several jurisdictions and to consider proportionality of costs and benefits for audits of small groups. In Switzerland there are a lot of groups with a simple group structure which could be audited by the LCE audit standard in the future if the application for specific group audits was included in the scope of application. Additionally, a general scope-out of group audits would very likely imply that all significant components of a group would also be subject to a full ISA-audit even if they themselves met the LCE-criteria.

## **Federation of Accounting Professions of Thailand**

Group audits should be included in the scope of ED-ISA for LCE only for the entities where the nature of the group audits is straightforward. Qualitative criteria should be provided, including, for example, the number/geography of entities in the group, the process of consolidation.

## **Finnish Association of Authorised Public Accountants**

The group audits should definitely be included!

We do not support excluding group audits in A.7(d), and we will comment on that separately in Section 5

## **GGI Global Alliance**

Group audits could be done according to the draft new standard when the group is “less complex” We share the opinion of many stakeholders that the consolidation of “less complex” entities does not qualify automatically the group as a “more complex” entity. Including for group audits, the new standard should include a clear definition of what is complexity (see above).

## **Indonesian Committee on Public Accountant Profession (KPAP)**

KPAP considers that a group audit can be included in the ED-ISA for LCE as long as it can be identified as a less complex entity after looking at the various characteristics of the group entity.

## **Institute for the Accountancy Profession in Sweden (FAR)**

Group audits are excluded in the proposed ISA for LCE (see further responses to questions 22 through 26). The applicability of the ISA for LCE for components could be addressed already in the Authority section. This is commented in paragraph 157 in the Explanatory Memorandum. We believe that, to the extent possible, ISA for LCE should be possible to use based on circumstances in the context of the component rather than from the group audit and group auditor’s perspective.

In our view the probation to use ISA for LCE in group audits is too aggressive. See further under responses to questions 22 through 26.

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

### **Institute of Certified Public Accountants in Israel**

It is our opinion that in a regulatory environment where all companies are required to submit annual audit reports (as is the case in Israel), there are many entities, which are subject to audit in accordance with ISA 600; however, the level of complexity of the components is low, and therefore such entities can be audited under the audit rules proposed in the ISA for LCEs. ICPAI believes that a sweeping ban on the inclusion of entities that are subject to audit under ISA 600 within the entities that may be audited in accordance with ISA for LCEs may lead to the standard's becoming less relevant.

We would like to note that many Israeli companies are incorporated as part of a group due to certain reasons; therefore, such a sweeping ban may exclude from the standard's scope relevant entities that should fall within that scope.

Specific prohibitions:

In our opinion, as described in Chapter 5, group audits should not be excluded from the scope of the standard.

### **Institute of Certified Public Accountants of Kenya**

While we appreciate the logic provided by the IAAS in their views to exclude group audits from the scope of the proposed standard, we are of the view that not all groups are not complex and as such cannot be a "one size fits all" approach to group audits. We therefore implore upon the IAASB to consider a more innovative approach to addressing group audits.

### **Institute of Certified Public Accountants of Uganda**

Please refer to questions 22- 25 for our views relating to group audits.

### **Institute of Chartered Accountants in England and Wales**

If the authority as presented was implemented, the standard would be unlikely to gain any significant traction in any jurisdiction because of the blanket exclusion of groups - see section 5, below. We find it hard to understand IAASB's explanation of its assertion that all groups are inherently complex.

We acknowledge that the concept of a group audit is understood differently in different jurisdictions and that for some, a group audit by definition must include a component auditor. This is not the approach taken in the UK and there is widespread consensus both here and in many other jurisdictions that the standard must cover group audits in some way, before the standard is finalised, if it is to be viable. This is because of the high volume of very simple group audits in many jurisdictions. We do not agree that all groups are inherently complex.

We also acknowledge widespread concerns about the potential challenges presented by group audits in which some components are audited under the extant ISAs, and others under this standard. Belief in the provision of reasonable assurance under this standard is critical to its adoption and we strongly urge relevant groups to be included in the scope of this standard.

Many of those we spoke to believe that there is no good reason to exclude groups involving the use of other auditors, or groups crossing jurisdictional boundaries. The focus should be on the complexity of the group, not the audit. The presence or otherwise of a component auditor is only relevant if the group itself is complex.

### **Institute of Chartered Accountants of Jamaica**

We disagree with the prohibition of groups, consideration should be given to include groups that are not complex in nature and where the companies on their own (i.e., without the consideration of being a part of a group) would have qualified to use the Less Complex Entity workflow.

### **Institute of Chartered Accountants of Namibia**

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.

### **Institute of Chartered Accountants of Pakistan**

However, we do not agree with the proposed approach of scoping out group audits from the standard (as per proposed scope, if the audit engagement is an audit of group financial statements, then the standard cannot be applied). Our comments on this are detailed under the specific question 22-26.

We agree with the specific prohibitions specified in paragraph A.7 (a to c) of the proposed standard.

However, we do not agree with the exclusion of group audits (mentioned in paragraph A.7 (d)) from the applicability of the proposed standard. We believe that not all group audits are complex. Small privately held entities could be less complex and these entities owing to their structure could be subject to a group audit. Prohibiting all group audits from the scope would limit the use of ISA for LCE.

Our detailed response on the group audits is provided under questions 22-26.

We believe that the group audits should not be excluded out rightly from the scope of the proposed ISA for LCE.

We believe that not all group audits are complex. In Pakistan, we note that there are various sizes and types of groups, and there are small groups with simple structure and non-complex operations. They may fall under the scope of the proposed standard. For such groups, ISA for LCE could be relevant and adequate auditing standard. We support the inclusion of group audits where the group entity meets certain criteria (for example, qualitative characteristic may include size, complexity, and the reporting structure of the entities involved in the group).

### **Institute of Chartered Accountants of Scotland**

An unintended consequence that might result from the exclusion of all groups is that the standard may not be applicable to as wide a range of audits of LCEs as it should be. That, therefore, might mean that the finalised standard will not be adopted by those jurisdictions which have either implemented their own standard or are on the verge of doing so. Additionally, even where audit firms are allowed to adopt the standard, if they have a number of group audits which are less complex in nature, this blanket prohibition might mean that they opt to continue with the full suite of ISAs for all of their audits.

However, the Authority would appear to be suboptimal in terms of seeking to maximise the benefits that the proposed standard offers. Specifically, in this regard, we believe the omission of all groups from the scope of this standard, regardless of their perceived level of complexity, to be a major weakness in the Authority as drafted.

We are not supportive of specifically scoping out all group audits. Given the number of groups that are composed entirely of less complex entities, we do not believe a complete exclusion to be a proportionate approach. Rather, as a general concept, we believe that the same criteria should be applied in the group situation to determine whether use of the ISA for LCE is appropriate.

As part of any future implementation review it would be useful for the IAASB to assess the consistency or otherwise of the specific criteria applied by those jurisdictions that adopt the finalised standard in terms of the specific prohibitions and qualitative criteria. For example, have they added further limitations e.g., quantitative thresholds?

We believe that group audits should be included within the scope of the ED-ISA LCE. As per our response to Question 24 we believe that the qualitative characteristics set out in paragraphs A8 and A9 of the proposed standard should be used as the basis to determine whether or not a group would qualify to use the ISA for LCE.

### **Institute of Chartered Accountants of the Maldives**

Group audit: We believe that not all the group audits are complex, as there might be some group audits where the parent and subsidiaries do not have much complexities in their financial transactions and reporting. Therefore, we suggest to include within the scope of ISA for LCEs the group audits and, state in it that the group and component auditors shall decide, based on the principles provided in ISA for LCEs, on the most appropriate standard from amongst ISA for LCEs and ISAs for the audit of the group and subsidiaries.

## **Institute of Singapore Chartered Accountants**

In our view, group audits should be included in the scope of ISA for LCE, as they may not always be complex. It is not uncommon to see groups which are not complex, for example, where all entities are within the same jurisdiction and separate entities are set up for mostly inter-company transactions or for administrative reasons. For example, a group that consist of a holding company that manufactures goods and sells 100% of the goods to its subsidiary (which acts as a marketing/distribution channel) may not be considered complex. In such situations, although the business is structured in a few legal entities, the group as a whole may be in substance, an LCE.

## **Instituto Mexicano de Contadores Públicos (IMCP)**

We consider that certain types of group audits should be in scope, since groups do not necessarily have to be complex.

Yes, we agree except for the exclusion of Group audits, which is dealt with in Section 5, questions 22 to 26 of this document.

## **International Federation of Accountants' Small and Medium Practices Advisory Groups**

In some jurisdictions, it was noted that it may come down to whether the local regulators will permit group audits to utilize the standard. The SMPAG believes that less complex group audits should be included in the scope of the standard as long as the entity meets certain criteria, which may include size, complexity, and the reporting structure of the entities involved in the group. If group audits are permitted (provided they meet certain criteria), we believe that some additional guidance may be needed to help explain scenarios where an entity has a less complex reporting structure and would qualify to use the standard.

The SMPAG believes that less complex group audits should be within the scope of the standard, provided they meet certain criteria, as outlined in option 2 of the ED. For example, we believe that a holding company for two small, noncomplex entities that otherwise meets all of the characteristics of an LCE should be permitted to use this standard. We believe that prohibiting all group audits from the scope could disqualify a large number of entities from being able to use the standard, where otherwise they meet all of the qualitative characteristics and specified criteria. We provide additional context in our responses to questions 22-26 that are specific to group audits.

## **Korean Institute of Certified Public Accountants**

We agree with all the specific prohibitions, except for 'the auditor of group financial statements.

Group audits should be included in the scope of ISA for LCE. Many group financial statements are not complex, including simple consolidation of 100% wholly owned subsidiaries that are engaged in the same industry. It is not appropriate to fundamentally ban the use of ISA for LCE for audits of group financial statements because such ban would result in excluding too many entities from the scope of application.

## **Malaysian Institute of Certified Public Accountants**

We are of the view that group audits should be included as there are many group structures which are fairly simple and straightforward as therefore lend themselves as being less complex entities or structures in accordance with the definition in the proposed standard.

## **Malta Institute of Accountants**

We are of the opinion that group audits should not be excluded from ISA of LCE if the consolidation is of a relatively simple nature (e.g. does not involve other auditors).

We are of the opinion that group audits should not be excluded from ISA of LCE if the consolidation is of a relatively simple nature (e.g. does not involve other auditors). We do have a number of groups that satisfy this and/or simply consist of a holding company and one or a few subsidiaries.

## **Nordic Federation of Public Accountants**

There are many groups that are not complex and are created based on other reasons than extensive M&A activities. Therefore, the LCE standard should be applicable for audits of Less Complex Groups (LCG).

## **Norwegian Institute of Public Accountants**

Finally, we would like to stress the point that we strongly oppose the suggested outright prohibition to use the standard on group audits, see the comments in the Nordic response.

### **Ordre National des Experts Comptables et des Comptables Agréés du Burkina Faso (ONECCA-BF)**

While we appreciate the logic provided by the IAASB in their views to exclude group audits from the scope of the proposed standard, we are of the view that not all groups are not complex and as such cannot be a “one size fits all” approach to group audits. We therefore encourage the IAASB to consider a more innovative approach to addressing group audits.

If the IAASB considers including group audits in the [Draft] ISA for LCE, it then suggested to modify section A Authority of the [Draft] ISA to withdraw group audit exclusion (c) and edit the wording of the name of the standard to reflect that choice and amend any other relevant wording accordingly.

### **Pan-African Federation of Accountants (PAFA)**

r groups we also believe blanketly classifying group as complex is not necessary. There are some group, especially if there is no outside shareholder in the group companies that will make them complex. An example is a company that has several properties which it leases out. The structure for tax or other reasons is such that each property is housed in a separate company. But that structure the company is already a group but there is nothing that significantly increases the complexity had all the companies been in one group.

While we appreciate the logic provided by the IAASB in their views to exclude group audits from the scope of the proposed standard, we are of the view that not all groups are not complex and as such cannot be a “one size fits all” approach to group audits. We therefore implore upon the IAASB to consider a more innovative approach to addressing group audits.

### **REA Auditores**

we agree with these except for the exclusion of audits of group financial statements. Groups are not necessarily more complex than individual entities. This is especially the case when the management and ownership are concentrated in the hands of very few people: such groups tend to be managed as a single entity. Furthermore, if groups are scoped out then many LCEs that are part of a group may be required to conduct audits in accordance with full ISAs.

We support the inclusion of group audits.

Groups are not necessarily more complex than individual entities. This is especially the case when the management and ownership are concentrated in the hands of very few people: such groups tend to be managed as a single entity. Furthermore, if groups are scoped out then many LCEs that are part of a group may be required to conduct audits in accordance with full ISAs. Hence, we suggest that groups be scoped into the standard.

### **Society of Certified Accountants and Auditors of Kosovo (SCAAK)**

we agree with these except for the exclusion of audits of group financial statements. Groups are not necessarily more complex than individual entities. In our country for example, majority of groups are not complex and the ownership is concentrated in very few people, e.g., families. Hence, we suggest that groups be scoped in and use the same logic of evaluating qualitative characteristics similar to individual entities.

We support the inclusion of group audits.

As mentioned above we support inclusion. Groups are not necessarily more complex than individual entities. This is especially the case when the management and ownership are concentrated in the hands of very few people: such groups tend to be managed as a single entity.

### **South African Institute of Chartered Accountants (2)**

With regards to the audits of group financial statements, it is our view that not all groups are necessarily complex. Simple groups that do not contain any complexities should be scoped into the LCE standard. Refer to our responses in Section 5.

It is our view that not all group structures have public interest characteristics e.g. group of private entities that are owner managed, or a group with dormant entities within its structure. Therefore, the blanket prohibition applied to group audit engagements in the LCE standard is not reasonable and where the group structure is not complex, the LCE standard should be applicable.

The majority of the members in the SAICA task group were of the opinion that group audits should be included as not all group structures and/or group transactions can be considered to be complex (for example closely held companies)

128. Other members were of the view that a group audit cannot be conducted using this draft as per para A7(d). When a group is involved, the risk of misstatement due to various dealings, intercompany transactions, year-end differences etc. is too high that a group can be considered as a non-complex environment. It must also be considered that, if ISA for LCE is used at a subsidiary level, what additional procedures will be required at a group level to ensure compliance to all ISA requirements.

129. ISA 600 (Revised) has now also been finalised. Based on this revised standard, if the financial information of an entity includes the financial information of branches and divisions through a consolidation process, then those financial statements are group financial statements. This is clearer compared to the extant standard where there have been different interpretations about the applicability of ISA 600 to certain group structures, particularly branches and divisions. Therefore, simple group structures may also prepare group financial statements. It is SAICA's view that such simple group structures (constituted of LCEs) should be included in the scope of the LCE standard.

### **South African Institute of Professional Accountants**

The use of the proposed standard should not be prohibited when the audit is an audit of group financial statements. We do not support the IAASB view that group audits inherently exhibit characteristics of complexity within an entity and, consistent with other areas of complexity.

We do not agree with the Authority of ED-ISA for LCE specifically prohibiting use of the proposed standard for group audits.

We are of the view that not all groups are not complex and as such cannot be a single approach to all group audits. We therefore implore upon the IAASB to consider a more innovative approach to addressing group audits.

In our jurisdiction majority of organizations structure their group as a subsidiary holding the premises (land and building) from where they operate. This will then qualify as a group and they will be excluded from ISA for LCE under the current exclusions. If the property were based in the operating company, then they would be allowed to apply ISA for LCE. This is an example of a clear example where group companies should not be excluded and can effectively use ISA for LCE.

## **8. Academics**

### **Accounting and Finance Association of Australia and New Zealand**

We believe that group audits should not be universally excluded from the scope of ED-ISA for LCE. The judgment as to whether the standalone standard is appropriate in a group audit setting should be based on qualitative criteria supplemented by the inclusion of the use of component auditors as a factor that may suggest a level of complexity that would make the standalone standard inappropriate.

While many groups are likely to be complex, there are a large number of groups that will exhibit characteristics that are consistent with them being classified as a less complex entity. The characteristics that are indicative of complexity are applicable to identifying group entities that may be more complex (e.g., number of subsidiaries, geographic or business segments, percentage of foreign assets) and we recommend that a determination of whether a group entity is included within the scope of the standard, like other entities, should be made on the basis of qualitative criteria included in the standard's authority. Research, however, suggests that the involvement of a component auditor be recognized as an additional criterion that may be indicative of complexity (and unique to a group setting) (Burke et al. 2020; Carson et al. 2021). Complexity in group audits may arise from coordination and communication challenges between group and component auditors (Downey and Bedard 2019; Downey and Westermann 2021) and cross-cultural differences and language barriers between group and component auditors (Saiwitz and Wang 2020; Downey et al. 2020).

## Argentine institute of Auditing Professors

They must be included, provided they meet the requirements to qualify the components as LCE.

We understand that the authority as presented in this ED can be implemented. However, we conclude that the prohibition of group audits for controlling and controlled entities that qualify as LCEs should not be limited.

With respect to the specific prohibitions, the group audit prohibition should be limited to the extent that the controlling and controlled entities have the same characteristics. This would be consistent with the qualitative characteristics.

## Brunel University London

As discussed to in Q3 audit of group financial statements should be considered and scoped in because if excluded, it will significantly limit the extent to which the standard can be used.

The audit of group financial statements should be considered and scoped in because many groups are less complex and if excluded will significantly limit the extent to which the standard can be used and many LCEs forming part of a group may have to conduct audits following the full ISAs.

## Hunter College Graduate Program

Group audits should be included for both individual components and consolidated audits depending on if the entity's characteristics meet the definition of LCE. If the individual component and subsidiaries meet the definition and characteristics of an LCE, then it should be included in the scope of ED-ISA for LCE.

## 9. Individuals and Others

### Andrew Wallis

The only other area of my comment centres on the current exclusion of group entities from LCE consideration para 158 (page 44/170) request for comments 22-24 page 48/170. Might I suggest that LCE's include group companies where the only other 'group' entity is a wholly owned subsidiary which has the only purpose to act as the employer of the overall business and does not trade in any other industry or capacity.

### Cristian Munarriz

I strongly believe that group audits should be included in the scope of ISA for LCE. The main reason is that 2 similar entities with similar operations should not be considered to be of different complexity just because one of them is a group audit while the other is not. I will provide a few examples to illustrate my point (just to clarify, the examples should not be considered to be rare cases because, at least in my opinion, they are not):

A LCE currently qualifies for ISA for LCE. Later, the entity is divided in 2 subsidiaries reorganized under the control of a holding company. It makes no sense that the audit of the holding company is considered complex just because it is a group audit because the complexity of the engagement is substantially the same. Also, if audit of consolidated FS of holding company is to performed under ISAs, probably auditors will need to use ISAs for the audit of the 2 subsidiaries (otherwise it would be difficult for the auditor of holding company to assess compliance with ISAs even if the group auditor is the same as component auditor).

A similar case would be if an entity split part of its operations in 1 or more new entities, becoming a group audit where the new entities are components.

A LCE qualifies for ISA for LCE. Later, the entity acquires a share in an associate but the operations remain substantially the same. It makes no sense that the entity now is out of the scope of ISA for LCE because little change in complexity is observed. It is more absurd if the associate is an immaterial component.

A LCE is out of the scope of the entity just because it includes joint ventures and joint operations as part of the operations where those entities perform the same activities of the entity for specific projects. A similar entity performs the same activities in collaboration with a partner but without creating any separate entities (i.e. joint ventures or joint operations) and it qualifies for ISA for LCE because it is not a group audit. Use of

joint ventures and joint operations are widely used in some industries, like construction, oil & gas and biotechnology. The joint ventures and joint operations may even be immaterial for the group.

A small group of entities which individually qualify for ISA for LCE (and have their audits performed under ISA for LCE) are under the control of an individual. Later, the individual asks the auditor to perform an audit of combined financial statements, but the auditor is precluded to apply ISA for LCE just because it would be a group audit, forcing the auditor to reperform the audit of at least some of the components under ISAs for group audit purposes.

An entity has operations in country A and country B (carried out by the same entity) but it is considered to be a LCE. A similar entity decides to carry out similar operations under 2 separate subsidiaries, one in each country, but it does not qualify for ISA for LCE just because it is a group audit.

In many cases, an entity may have only immaterial or even dormant subsidiaries. It does not seem reasonable to be a reason for exclusion of the scope of the ISA for LCE.

First scenario: a non complex entity is one of 2 subsidiaries in a group under control of a holding company (where both subsidiaries are non complex entities), and the subsidiary is a significant component for the group. Second scenario: a substantially similar entity is one of 100 subsidiaries in a large group, and the subsidiary is not a significant component for the group. In the first scenario, the subsidiary is likely to be required to be audited under ISAs to meet group audit needs (otherwise it would be difficult for the group auditor to assert compliance with ISAs). In the second scenario, the subsidiary is likely to not be required to be audited for group audit purposes, so it may apply ISA for LCE for statutory audit. It does not seem consistent.

It may be argued that many group audits are generally complex because they have exposure to different economic environments and regulations in different jurisdictions, typically have more complex accounting issues like goodwill impairment, step-up fair value adjustments and consolidation adjustments, and generally involve coordination with component auditors. I strongly reject those arguments because: Many groups operate in a single economic environment and similar regulations, and even in the same jurisdiction. Carrying out the same activities under 2 different entities does not necessarily add significant complexity.

Even if the group operate in multiple economic environments and regulations, or even different jurisdictions, the conclusion about complexity should not change on the grounds of the audit being a group audit or not. In other words, if a single entity performs operations under multiple economic environments, regulations and jurisdictions, it may be considered a complex entity disregarding its nature as a “non-group audit”. So, the classification as a group audit or not should be generally irrelevant to assess complexity.

Not all group audits have goodwill (for example, book-value method common control business combinations do not have goodwill or fair value adjustments), and even entities having goodwill may not be required to perform mandatory impairment testing but amortization (which is a significantly less complex estimate). However, even if mandatory impairment testing of goodwill exist, it should not be basis for excluding application of the ISA for LCE because it may be an isolated complex estimate (i.e. a single complex estimate should not preclude an entity to be considered less complex) or goodwill may even be immaterial. Consolidation adjustments may be complex in large and complex groups, but may be very simple in smaller groups, especially where there are only a few intercompany transactions.

In many group audits, audits of the components is performed by the group auditor or by the same audit firm. Nonetheless, the mere existence of a different component auditor, even if in a separate jurisdiction may not be considered to be a complexity factor, especially if the component is not significant.

Also, an issue to be considered is that there are engagements which are similar to group audits but technically they are not. For example, letter-box audits and shared services centers. If group audits are excluded, it would be unclear if those audits qualify for ISA for LCE or not. It is true that most (but not all) audits involving shared services centers may be complex and large audits, but I can assure you that many letter-box companies are not complex at all (for example, it is very common for start-up companies).

In conclusion, I think that group audits should not be excluded per se, but complexity of the group as a whole should be considered.

### **Rodoula Roussou**

Group audits should be included in the scope of ED-ISA for LCE. Many non-complex parent entities, with non-complex subsidiaries, would consist a non-complex group in Greece and should be in scope for this Standard.

## Vera Massarygina

In general audits of LCE must not be audits of group financial statements. But the definition of group in ISA 600 includes entities whose financial statements is not treated as consolidated financial statements under local legislation. For example: the sole legal entity may have divisions (see para. A2, ISA 600) with separate balances as a rule in the same country and even in the same city. «The consolidation process» is simple and unified in standard IT-program. Such «group financial statements» may be included in the scope of ED-ISA for LCE.

### **Section 5 – Group Audits\Question 22 - Views on whether group audits should be excluded from the scope of ED-ISA for LCE\1) Should be Included\1b) But Carefully Restricted**

#### 3. Regulators and Audit Oversight Authorities

##### Finance Professions Supervisory Centre Indonesia

In our opinion, the ED-ISA for LCE needs to include auditing arrangements in group financial statements but with strict restrictive requirements imposed in the ED-ISA for LCE, as follows:

Parent and component are not included in the category of complex entities

If parent and component are not included in the complex entity category in accordance with the Specific Prohibitions and Qualitative Characteristics requirements set out in section A. Authority of the [Draft] ISA for Audits of Financial Statements of Less Complex Entities in the ED-ISA for LCE, we believe it is possible to audit the group financial statements with ISA for LCE.

A Component is a non-significant component, and it is not included in the category of a complex entities

For group financial statements that use ISA, some component's financial statements that fulfil the LCE criteria may use ISA for LCE. These criteria must be met cumulatively which need to be made in more detail and can be applied, including:

The component is not categorized as complex entities according to the Specific Prohibitions and Qualitative Characteristics requirement that have been regulated in the A. Authority of the [Draft] ISA for Audits of Financial Statements of Less Complex Entities in the ED-ISA for LCE

Judgment by the auditor that the component showed non-significant criteria and did not require additional audit procedures other than performing analytical procedures in accordance with ISA 600 par 29

Clarify the implementation to audit of group financial statements, in case:

The parent is significant, but there is a component that non-significant, is it possible if the component use ISA for LCE?

The parent is an issuer, but only as a holding (not conducting operational activities) and the dominant business activity is in the component, is it possible if the parent or component use ISA for LCE?

#### 4. National Auditing Standard Setters

##### Indonesian Institute of Certified Public Accountants (IAPI)

We agree with the IAASB's decision and rationale for excluding group audits which have a complex characteristic in nature. We understand that group audits generally include an inherent level of complexity. However, there are also instances where the group is relatively straight forward and the audit does not involve complex matters which are consistent with the overall purpose and determination of the appropriateness to use the ISA for LCE for that audit. We therefore encourage IAASB to reconsider not totally excluding the group audit from the scope. Instead, we suggest that IAASB still includes group audit in the scope as long as it meets the qualitative characteristic of audits that meet the less complex criteria.

##### Institute of Chartered Accountants of India

In our view, group audits per se should be excluded from the scope of ED-ISA for LCE because of following reasons:

- In most cases, group audits inherently exhibit characteristics of complexity (also mentioned in paragraph 155 of Explanatory Memorandum to ED-ISA for LCE), so group audits should be excluded from scope of the standard.

- Inclusion of group audit in scope of the standard will make the standard very lengthy and complex. It will defeat the purpose of standard being a simple standard to apply in audits of LCE.

However, the following exception should be given in this regard:

If all components in a group are eligible to use ISA for LCE, then the group audit may also be allowed to use ISA for LCE. It will ensure uniformity in the auditing framework used across the group. If, however, even a single component in a group is not eligible to use ISA for LCE, then group audit should not be allowed to use ISA for LCE.

## **7. Professional Accountancy and Other Professional Organizations**

### **ASSIREVI**

We support the IAASB's view that group audits should normally be excluded from the scope of ED-ISA for LCE, as they inherently embody a higher degree of complexity.

However, we do acknowledge that small groups can exist for which their audit may be deemed less complex. Accordingly, we encourage the IAASB to supplement the existing Exposure Draft with a clear description of the criteria under which the adoption of the proposed ISA for LCE for group audits would be deemed appropriate.

### **Institute of Certified Public Accountants of Cyprus**

We agree with the IASB's to exclude group audits, apart from the case whereby there is no involvement of component auditors, and subject to the complexity.

### **Institute of Certified Public Accountants of Uganda**

We agree that group audits should generally be excluded from the scope of the ED-ISA for LCEs. However, there should be some exceptions for relatively simple groups, which have straightforward roles and structures. These types of groups tend to operate in a single country. Most of the groups in Uganda have relatively simple structures, and they tend to operate within the country. We believe that the scope of ED-ISA for LCEs can adequately cover simple groups.

## **Section 5 – Group Audits\Question 22 - Views on whether group audits should be excluded from the scope of ED-ISA for LCE\1) Should be Included\1c) But Could Add Later**

## **4. National Auditing Standard Setters**

### **Hong Kong Institute of Certified Public Accountants**

Our stakeholders have a strong view that the proposed standard should include group audits in its scope. In Hong Kong, it is common that a group of entities having simple operations would otherwise meet the authority of ED-ISA for LCE.

In the interest of time, the IAASB could consider developing the group audits requirements pertaining to ED-ISA for LCE as a second phase of the proposed standard where necessary, without having to delay implementing the contents in the existing ED.

## **5. Accounting Firms**

### **Mazars**

But we believe that priority in terms of standard setting and application guidance should be given on LCE for single entity at short term.

## **7. Professional Accountancy and Other Professional Organizations**

### **CPA Australia**

The inclusion of less complex group audits should be a matter to reconsider as part of the post-implementation review.

### **Institute of Singapore Chartered Accountants**

If there are concerns that groups are inherently complex, one approach that IAASB could undertake is to monitor the application of ISA for LCE in audits of standalone entities first before deciding whether to extend the application to group audits.

## **Section 5 – Group Audits\Question 22 - Views on whether group audits should be excluded from the scope of ED-ISA for LCE\1) Should be Included\1e) Comments on what contributes to complexity**

### **4. National Auditing Standard Setters**

#### **Japanese Institute of Certified Public Accountants**

However, inherent nature of group audits could potentially make the audit complex. In such cases, the application of the ISA for LCE should be prohibited. The following are two possible cases where the inherent nature of group audits could make the audit complex:

- (1) Complexity of the entity itself which is subject to group audit
- (2) Complexity of the group audit process (not attributable to the complexity of the entity itself)

- (1) Complexity of the entity itself which is subject to group audit

Complexities attributable to “the complexity of the entity itself” which is subject to group audit overlap with “qualitative characteristics that if exhibited by an entity preclude the use of the ISA for LCE for the audit of the financial statements of that entity” described in paragraphs A.8 and A.9. Since the application of ISA for LCE is already limited by A.8 and A.9, we believe that there is no need to limit the application of the standard for the reason that the audit is a group audit when the complexities attribute to the complexity of the entity itself.

The following are complexities associated with performing group audits described in paragraph 158 of the Explanatory Memorandum to the ED-ISA for LCE:

- (a) The complexity of the group’s structure
- (b) The geographic locations of the group’s operations
- (c) The structure and complexity of the group’s IT environment and IT systems
- (d) Relevant regulatory factors, including the regulatory environment
- (e) The ownership, and relationships between owners and other people or entities, including related parties
- (f) The consolidation process used by the group (e.g., sub-consolidations and consolidation adjustments)

All of the above complexities are considered to be attributable to “the complexity of the entity itself” which is subject to group audit. Many of them are already covered in the description of the qualitative characteristics that would make the ISA for LCE inappropriate for use in paragraph A.9. Specifically, “(a) The complexity of the group’s structure” means the same as “The organizational structure is not relatively straightforward or simple” in paragraph A.9.

“(c) The structure and complexity of the group’s IT environment and IT systems” means the same as “The entity’s IT environment or IT systems are complex” in paragraph A.9.

“(d) Relevant regulatory factors, including the regulatory environment” means the same as “The entity’s operations are subject to a higher degree of regulation or to significant regulatory oversight, such as being subject to prudential regulations” in paragraph A.9.

“(e) The ownership, and relationships between owners and other people or entities, including related parties, are complex” means the same as “Ownership or oversight structures are complex” in paragraph A.9.

“(b) The geographic locations of the group’s operations” is covered in essence in the description of “The entity’s business activities, business model or the industry in which the entity operates results in pervasive risks that increase the complexity of the audit” in paragraph A.9. In addition, “(f) The consolidation process used by the group (e.g., sub-consolidations and consolidation adjustments)” is also covered in essence in the description of “Transactions are complex or the information system and related processes relevant to the entity’s financial statements are complex” in paragraph A.9.

Based on the above, we believe that there is no need to uniformly exclude group audits from the scope of the ISA for LCE, as paragraphs A.8 and A.9 already cover the limitation of the application of the standard according to the complexity of the entity itself which is subject to group audit.

- (2) Complexity of the group audit process (not attributable to the complexity of the entity itself)

Even if the entity itself subject to audit is not complex, it is also true that inherent nature of group audits could potentially make the audit complex. Specifically, even if an entity has none of the characteristics listed in paragraph 158 of the Explanatory Memorandum, the audit itself is more complex when component auditors are involved. In such cases, the application of the ISA for LCE should be prohibited.

We held discussions among practitioners on factors that lead to complexity in the group audit process. However, no important factor was identified other than whether or not component auditors are involved. When component auditors are involved, the group auditor will take a series of following additional processes: considering the procedures for the component auditors to perform; sending instructions to the component auditors; obtaining reports on procedures performed by the component auditors; and evaluating the results of the audits. We are concerned that if the ISA for LCE is used for a group audit involving component auditors, the scope of the standard may also include complex audits. We are also concerned that, as concerned in paragraph 180 of the Explanatory Memorandum, it adds substantial length to the ISA for LCE as requirements pertaining to such procedures would need to be clarified.

We support the approach where group audits involving component auditors are excluded from the scope of the ISA for LCE, instead of prohibiting the application of the standard solely because an audit is a group audit. By taking this approach, we can avoid the unreasonable situation where the ISA for LCE cannot be applied even to group audits of less complex entities. We can also avoid the problem to a certain extent where the approach to incorporating group audits adds substantial length to the standard, as concerned in the ED-ISA for LCE.

## **Public Accountants and Auditors Board Zimbabwe**

Factors that makes a group complex or less complex should be the deciding factor and not just a group structure. There are groups whose operation are ffaily straight forward and not complex. In some instances the structure is only to achieve a particular efficiency for example admin efficiency/tax efficiency but operations are not complex at all

## **5. Accounting Firms**

### **BDO International**

If the proposed LCE standard is revised to allow it to be used for group audits, the qualitative characteristics can include examples of complexities that would preclude certain group audits from using the LCE standard. For example:

- Where some of the components in the group do not qualify as LCEs
- Where the group has significant components in more than 1 jurisdiction (that differ from the parent)
- Where the group auditor does not audit all significant components and therefore needs to use the work of other component auditors
- Where there are multiple operating entities in the group.

### **KPMG IFRG Limited**

We consider that much of the potential complexity in conducting a group audit, which ISA 600 is designed to address, is in connection with the use of component auditors, i.e., instructing them; being involved in their work; communicating with them, and reviewing their work.

## **7. Professional Accountancy and Other Professional Organizations**

### **Institute of Singapore Chartered Accountants**

Some considerations when determining if a group is complex could include:  
Whether the group would qualify as an LCE, if it had been structured as one legal entity  
Whether there are subsidiaries located in other jurisdictions  
Whether there is involvement of component auditors  
Similar to a standalone entity, ISA for LCE should allow the auditor to exercise judgement in assessing the complexity of the group based on qualitative characteristics.

### **Instituto Mexicano de Contadores Públicos (IMCP)**

The proposed standard could be applicable in groups that meet, among others, all the following characteristics:

- i) Groups in which all the entities that comprise it are considered as non-complex within the requirements established in the authority framework of the standard; ii) That they are companies within the same jurisdictional territory and ii) That all group entities are audited by the same team and that there are no component auditors.

## 8. Academics

### Hunter College Graduate Program

Although more complex, when considering whether to use group audits on a parent company, one should consider the characteristics of the entity. For example, if it's only in regard to one parent company with two small subsidiaries in two different countries, then an ISA for LCE for the parent company may still be appropriate. If there are too many subsidiaries, the audit may become too complex because the group auditor has to be involved in the assessment of risk of material misstatement and has to be more involved. The auditor also has to worry if the parent can follow the LCE and if the components meet the definition.

## Section 5 – Group Audits\Question 22 - Views on whether group audits should be excluded from the scope of ED-ISA for LCE\1) Should be Included\1f) Other Comments

### 4. National Auditing Standard Setters

#### Australian Auditing and Assurance Standards Board

The AUASB considers that the IAASB could establish some clearer criteria around which groups may be included in the scope of the standard.

#### Federación Argentina de Consejos Profesionales de Cs. Económicas

In short, defining the complexity indicators for a group in an exhaustive way, or with the least possible degree of subjectivity, would facilitate their application, since if they are chosen to be used, matters related to the group's financial statements, which potentially could affect the complexity of the audit stated in paragraph 158 of the explanatory memorandum (EM), require a high commitment of professional judgment such as: The structure and complexity of the IT environment and the IT systems of the group or, Ownership and relationships between owners and other persons or entities, including related parties, to name a few. In this sense, the alternative of paragraph 163 (a) of the MA we consider that it is appropriate, since it falls to the IAASB, the definition of complexity substitutes through specific prohibitions that could complement the different jurisdictions, tending to avoid in this way, the use of professional judgment when discerning whether or not to apply the standard.

These indicators are probably more complex to define for a group than for an individual case, since not all the components of the group necessarily have the same characteristics and environments.

#### New Zealand Auditing and Assurance Standards Board

The NZAuASB notes that the inclusion of groups would result in the proposed standard becoming longer to apply in practice. When a group needs to consolidate financial statements, the consolidation may also result in potentially complex issues. However, there is still a strong appeal for groups to be included in the scope of ED-ISA for LCE.

Most of the participants in our feedback forums held a similar concern and agreed that groups should not be excluded just because it is a group, but rather be based on the complexity of the group. However, the AFAANZ support the proposed standard for excluding group audits, but with an exception to allow group audits in cases where there are zero or immaterial involvement of component auditors.

### 5. Accounting Firms

#### Ernst & Young Global Limited

However, if the IAASB were to narrow down the criteria in the Authority section of the standard to make the ED-ISA for LCE applicable to only entities at the lowest level of complexity and potentially size, then we do not believe group audits should be included in the ED-ISA for LCE.

## **Section 5 – Group Audits\Question 22 - Views on whether group audits should be excluded from the scope of ED-ISA for LCE\2) Should NOT be Included\2a) Groups are Inherently Complex**

### **6. Public Sector Organizations**

#### **Government Accountability Office (USA)**

We do not believe that entities needing a group audit should meet the criteria for a LCE. We believe that including group audits add a layer of complexity to audits; this makes their inclusion in the ED-ISA for LCE inappropriate.

### **7. Professional Accountancy and Other Professional Organizations**

#### **Instituto Salvadoreño de Contadores Públicos (ISCP)**

We agree to exclude groups from audits of financial statements from this Standard, considering that most of this type of entities usually have complex structures and high-risk transactions between related parties. In addition, this decision limits the scope and reduces the application of professional judgment to determine the application or not of this Standard to groups of companies.

#### **Self-Regulatory Organization of Auditors Association (SRO AAS)**

In our opinion, the group is an object that cannot be less complex in its essence. Therefore, we believe that group audits should be excluded from the scope of ED-ISA for LCE.

#### **Union of Chambers of Certified Public Accountants of Turkey (TURMOB)**

For the time being, the group audits should be excluded. Their inclusion will increase complexity of the standard and may lengthen time for its effectiveness as well.

## **Section 5 – Group Audits\Question 22 - Views on whether group audits should be excluded from the scope of ED-ISA for LCE\2) Should NOT be Included\2b) But maybe reassess in future**

### **4. National Auditing Standard Setters**

#### **Compagnie Nationale des Commissaires aux Comptes and Conseil Supérieur de l'Ordre des Experts-Comptables**

Yes, we support, at this stage, the exclusion of group audits from the scope of the ED-ISA for LCE. We think it is important that the IAASB focuses on less complex entities as a first step. Once the ISA for LCEs will be finalized and adopted, it will then be possible to assess whether it is appropriate to address less complex group audits in the ED-ISA for LCE, or in a separate standard, in a second phase. At this stage, we favor the policy of small steps. We therefore agree to exclude the group audits from the ED-ISA for LCE.

### **5. Accounting Firms**

#### **PKF International Limited**

In our view, group audits should be excluded from the scope of the ED-ISA for LCE. Group audits create additional complexity in several areas of an audit which would not otherwise be present in a non-group audit. In our view, if the IAASB were to consider publishing ISA requirements on group audit in context of a less complex audit engagement, we would encourage the IAASB to consider the benefits of a stand-alone ISA for less complex groups. In our view, a separate ISA for less complex groups could form a complimentary suite of “Less Complex ISAs” alongside the ED-ISA for LCE. We believe that further time and due process is required in order to properly develop an appropriate ISA for Less Complex Groups. If the IAASB does proceed with an ISA for Less Complex groups, we would encourage the IAASB to publish the final ISA for LCE in the meantime, with group audits being excluded from its scope.

## **Section 5 – Group Audits\Question 22 - Views on whether group audits should be excluded from the scope of ED-ISA for LCE\2) Should NOT be Included\2c) With No Further Comments**

### **3. Regulators and Audit Oversight Authorities**

#### **Canadian Public Accountability Board**

Expanding the ISA for LCE to include group audits would amplify our concerns over the adequacy of the standalone nature of the ISA for LCE.

### **6. Public Sector Organizations**

#### **Swedish National Audit Office**

In general, we agree that the standard should not be allowed in the public sector for group audits

### **7. Professional Accountancy and Other Professional Organizations**

#### **Chamber of Financial Auditors of Romania**

We consider that group audits should be excluded from the scope of ED ISA for LCE. However, the entities that are part of group and meet the criteria of LCE application should be allowed to use it.

#### **Polish Chamber of Statutory Auditors Warsaw (Regional Branch)**

Yes, it should be excluded from the scope.

## **Section 5 – Group Audits\Question 22 - Views on whether group audits should be excluded from the scope of ED-ISA for LCE\2) Should NOT be Included\2d) Other Comments**

### **7. Professional Accountancy and Other Professional Organizations**

#### **Chamber of Financial Auditors of Romania**

We consider that group audits should be excluded from the scope of ED ISA for LCE. However, the entities that are part of group and meet the criteria of LCE application should be allowed to use it.

#### **Chartered Governance and Accountancy Institute in Zimbabwe**

We support the exclusion of group audits from the proposed standard to stick to the simplicity objectivity.

#### **Institute of Certified Public Accountants of Rwanda**

Generally, we believe that group audits should be excluded from the scope of ISA for LCE due to their nature of associated risks and complexity. However, a clarification is needed as to whether subsidiaries within the group that fall in the LCE category will be allowed to use ISA for LCE and the group used other existing ISAs.

#### **Instituto dos Auditores Independentes do Brasil**

We agree with the exclusion because it can increase the length of the proposed standard considerably. In addition, trying to embrace 'everything' would diminish the relevance of the current ISAs.

#### **Union of Chambers of Certified Public Accountants of Turkey (TURMOB)**

For the time being, the group audits should be excluded. Their inclusion will increase complexity of the standard and may lengthen time for its effectiveness as well.

## **Section 5 – Group Audits\Question 22 - Views on whether group audits should be excluded from the scope of ED-ISA for LCE\3) Unsure or No Clear Direction**

### **3. Regulators and Audit Oversight Authorities**

#### **Irish Auditing and Accounting Supervisory Authority**

The proposal to exclude groups from the scope of the ISA for LCE will limit its applicability as it is common for business to be structured across a number of separate corporate entities.

### **5. Accounting Firms**

#### **PriceWaterhouseCoopers**

Group audits

We believe there are significant challenges in permitting use of the proposed standard on group audits. We acknowledge that there can be simple group audits but believe that in order to avoid unacceptable risks to audit quality (including that the LCE standard is inconsistently applied in similar fact patterns), clear criteria need to be prescribed for when the standard may be applied to such groups. In our response to questions 22 and 24, we describe our recommendations for such criteria. However, in summary we suggest this be limited to group audits conducted by a single firm and without the involvement of component auditors.

In our response to the 2019 Discussion Paper, we supported the IAASB's decision that group audits should be excluded from scope as they inherently embody a higher degree of complexity. However, we accept that small groups can exist for which the audit thereof may be deemed less complex.

Any decision to permit the use of the proposed ISA for LCE for group audits must be driven solely in relation to audit quality. Furthermore, any decision to do so must also be supported by a clear description of the criteria for when such use would be deemed appropriate, in addition to any qualitative size criteria that may be established as described in our response to question 3(a). We further comment on criteria in response to question 24.

If a decision is taken by the Board to permit use on certain group audits without specifying the criteria we describe in our response to question 24, we believe it is critical that the Board also addresses the question of the standards that may be applied in respect of the audit of components of a group and how that may impact a group audit required to be conducted in accordance with the ISAs.

If a component entity is considered to be an LCE for purposes of a local statutory audit and the auditor plans to conduct that audit in accordance with the ISA for LCE, guidance will be required as to whether the evidence obtained from that audit can meet the group auditor's purposes, if the group auditor is required to assert in their report on the group financial statements that the audit was conducted in accordance with ISAs. There may also be circumstances where a group may be deemed less complex but the use of the ISA for LCE is prohibited in the jurisdiction of a component. As we discuss in our response to question 24, as soon as an audit crosses national borders or includes using the work of component auditors, complexities are introduced, including that different jurisdictions may or may not adopt the ISA for LCE.

### **6. Public Sector Organizations**

#### **Audit Scotland**

Groups may be simple or complex. Simple groups do not generate a significant audit burden so the standard could be written to reflect the complexity of group arrangements rather than having an outright exclusion.

### **7. Professional Accountancy and Other Professional Organizations**

#### **ASEAN Federation of Accountants**

Many of our respondents disagree with the definite exclusion of audits of group financial statements from the standard. This may alienate potential use in different scenarios such as in audits of groups with fairly simple operations and functions that by characteristics may be classified as LCEs. The Board may consider relevant aspects of its revision of ISA 600, particularly on the use of component auditors. If audits of group financial statements are included, we have received a response for the Board to consider comprehensively presenting all requirements in a separate part of the standard to allow for easy focus and/or carving out.

## **Institute of Chartered Accountants of Ghana**

Group audits should be included within the scope of ED-ISA for LCE. We are of the view that the qualitative characteristics could be the measure of use. This would make the standard longer, but we believe this would be more representative of the reality of Group audit. On the other hand, we think that the group audit should be excluded because less complex entity by defining do not always prepare group financial statements for audit.

## **Section 5 – Group Audits\Question 22 - Views on whether group audits should be excluded from the scope of ED-ISA for LCE\4) Other Options\4a) Allow reference to ISA 600**

### **5. Accounting Firms**

#### **Crowe Global**

#### **Crowe Global**

The Authority as presented is implementable, but we comment below our view regarding application of the standard for the audit of group financial statements.

We agree with the proposed limitations, with the exception to those that relate to the application of the standard for the audit of group financial statements. We comment on this below.

We consider that if an LCE is required by law or regulation or chooses for its own business and strategic reasons to prepare group financial statements and an audit is required then that audit can come within the scope of ED-ISA for LCE.

As the IAASB has invested significant time and effort in the development of ISA 600 (Revised) we consider that rather than including group audit requirements within the content of ED-ISA for LCE, ISA 600 (Revised) should be applied. To assist with the performance of a group audit, the IAASB could prepare a staff publication that assists with the application of ISA 600 (Revised) alongside ED-ISA for LCE.

We consider that this is a straightforward solution for those circumstances where an LCE prepares group financial statements that requires the minimum of additional effort. In view of proposing this solution, we shall not respond to questions 23 to 26.

## **Section 5 – Group Audits\Question 22 - Views on whether group audits should be excluded from the scope of ED-ISA for LCE\4) Other Options\4b) Update the ISAs**

### **5. Accounting Firms**

#### **SRA**

Under A7(d) an audit of group financial statements is excluded from use of ISA for LCE. In circumstances where a group is exclusively composed of entities which fulfill the qualitative characteristics of an LCE it is illogical to prohibit the use of ISA for LCE.

In our view, requirements for all audits should be based on a bottom-up approach, thereby making a strong base on which more detailed requirements can be built. These basic requirements could partly be principle-based.

Following this approach a distinction could be made within the present ISA's between basic requirements for all audits (including LCE's) and other requirements, applicable to complex entities. Requirements applicable to all audits could be named key or basic requirements. Of course, it is essential to have a clear wording of these key or basic requirements.

In an audit of group financial statements, the suggested approach will lead to an efficient audit of a combination of complex and less complex entities. The group auditor should be responsible for deciding the audit approach of each entity.

Reference is made to comments under 1(a) regarding audit of group financial statements and to comments under 4(a).

## **Section 5 – Group Audits\Question 22 - Views on whether group audits should be excluded from the scope of ED-ISA for LCE\z. Comments on Components Clarifications(regardless of response - does not tie)**

### **1. Monitoring Group**

#### **International Forum of Independent Audit Regulators (IFIAR)**

The use of ISA for LCE for component audits in group audits conducted under full ISAs should be clarified. The group auditor is ultimately responsible and accountable for ensuring the group audit engagement has been performed in accordance with the ISAs. If the IAASB proceeds with the ISA for LCE, they will need to consider the necessary conforming amendments to ISA 600 (revised), Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors).

#### **International Organization of Securities Commissions (IOSCO)**

We further note that two sets of auditing standards would create additional complexity for group audits particularly with consistency related to stand-alone reports. Specifically, we are concerned about consistency and quality due to the permissibility of ISA for LCE for component audits within a group audit (see paragraph 157). As a consequence, we believe that the Board will need to consider limitations for the use of ISA for LCE in group audits.

### **3. Regulators and Audit Oversight Authorities**

#### **Irish Auditing and Accounting Supervisory Authority**

Conforming amendments

If the ISA for LCE is adopted, then conforming amendments may be required to the ISAs. For example, the group auditor is ultimately responsible for ensuring the group audit engagement has been performed in accordance with the ISAs. Paragraph 157 of the explanatory memorandum states that the group auditor will need to determine whether the use of the ISA for LCE in a component is sufficient for their purposes. If the IAASB proceeds with the ISA for LCE, they will need to consider the necessary conforming amendments to ISA 600 (revised), Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors).

### **4. National Auditing Standard Setters**

#### **Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)**

One issue not directly related to the content or authority of the LCE standard that the IAASB may wish to clarify in relation to the ISAs is the applicability of the LCE standard for components when group auditors use the ISAs. It seems to us that, since under ISA 600 (Revised 2021), group auditors determine what needs to be done at component level, it is a group auditor decision as to the nature, timing and extent of audit work needed, which may involve application of the ISAs or the IAASB LCE standard, as needed. We believe such a clarification in relation to the ISAs would be helpful.

#### **Japanese Institute of Certified Public Accountants**

Paragraph 157 of the Explanatory Memorandum states that the group auditor will need to determine whether it is appropriate for the component auditor to use ED-ISA for LCE for the purposes of the group audit. This description is necessary for understanding the scope of ISA for LCE, and should be included in the guidance and other documents when the standard is finalized.

With respect to the auditor's report on the group financial statements when the component auditor has performed procedures for group audit purposes in accordance with the ISA for LCE, we understand that paragraph 11 of extant ISA 600 requires that "(excerpt) the auditor's report on the group financial statements shall not refer to a component auditor" However, since ISA for LCE is a new separate standalone standard, it may cause misunderstanding. Therefore, we think it is necessary to clarify that it will not be explicitly stated in the auditor's report that the auditor has complied with the ISA for LCE for some of the group audit procedures, even when the component auditor has performed procedures for group audit in accordance with the ISA for LCE.

## **Royal Netherlands Institute of Chartered Accountants (NBA)**

We also recommend explaining how practitioners should deal with the interaction between statutory audits that will be performed using the LCE audit standard and group audits that will be performed using the ISAs.

### **5. Accounting Firms**

#### **Ernst & Young Global Limited**

Regardless, we believe guidance is likely needed for entities that are subject to statutory audit requirements (and qualify for application of the ED-ISA for LCE for the purposes of the statutory audit), but also are components of a group audit that is performed in accordance with the full suite of ISAs. It would be useful for the IAASB to develop guidance on any specific adaptations to the work performed by the component under the ED-ISA for LCE that would be needed for that work to also meet the needs of the group audit.

#### **Mazars**

Group audits are excluded in the proposed ISA for LCE (see further responses to questions 22 through 26). The applicability of the ISA for LCE for components could be addressed already in the Authority section. This is commented in paragraph 157 in the Explanatory Memorandum. We believe that, to the extent possible, ISA for LCE should be possible to use based on circumstances in the context of the component rather than from the group audit and group auditor's perspective. Component auditor may already not rely on statutory audit? Or said another way – scoping out group audits should not also automatically scope out the component.

#### **PriceWaterhouseCoopers**

If a component entity is considered to be an LCE for purposes of a local statutory audit and the auditor plans to conduct that audit in accordance with the ISA for LCE, guidance will be required as to whether the evidence obtained from that audit can meet the group auditor's purposes, if the group auditor is required to assert in their report on the group financial statements that the audit was conducted in accordance with ISAs. There may also be circumstances where a group may be deemed less complex but the use of the ISA for LCE is prohibited in the jurisdiction of a component. As we discuss in our response to question 24, as soon as an audit crosses national borders or includes using the work of component auditors, complexities are introduced, including that different jurisdictions may or may not adopt the ISA for LCE.

### **7. Professional Accountancy and Other Professional Organizations**

#### **Institute of Certified Public Accountants of Rwanda**

However, a clarification is needed as to whether subsidiaries within the group that fall in the LCE category will be allowed to use ISA for LCE and the group used other existing ISAs.