

# Supplement 2-20 to Agenda Item 6

**Audits of Less Complex Entities – ED-ISA for LCE – Q23(a) Respondents in public practice are asked to share information about the impact of excluding group audits from the scope of ED-ISA for LCE on the use of the proposed standard. In particular: Would you use the standard if group audits are excluded? If not, why not?**

**Section 5 – Group Audits\Question 23 - Information about the impact of excluding group audits from the scope of ED-ISA for LCE\Question 23(a) - Would you use the standard if group audits are excluded\1) Yes\1a) Yes**

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

### **Botswana Accountancy Oversight Authority**

The standard would be used only on entities that are not affected by the Group (Holding Company) being scoped out of the definition/criteria of LCE.

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

The auditors represented on the LCE Task Group consider that if group audits are excluded, the proposed standard would probably be used less frequently, as less complex groups are common in the South African environment.

From a public sector perspective, the proposed standard would still be used, as the majority of the entities are not groups. Those that are group entities are generally complex and would be outside the scope of this proposed standard.

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

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

Yes, we will use the standard if group audits are excluded.

### **Institute of Chartered Accountants of India**

We would use the standard if group audits are excluded.

### **Malaysian Institute of Accountants**

While it would be used, there would be less complex entities that are part of groups which would not be able to benefit from the proposed standard.

## **5. Accounting Firms**

### **Azets Audit Services**

If we had the opportunity in the UK to use ED-ISA for LCE, but group audits were excluded from its scope, we believe it would still be in the best interests of the stakeholders of those entities to adopt the proposed standard. It would be easier to make the commercial case for adoption as a matter of firm-wide policy, however, if group audits were included within its scope.

### **ETY sas**

Yes, for consistency with the standalone nature of the standard we will be using two sets of standards (ISA and ISA for LCE) with requirements of group audits in ISA 600 Special Considerations – Audits of Group Financial Statements (Including the work of Component Auditors) used for entities excluded from the ISA for LCE.

### **MHA Monahans**

We would use the standard even if group audits are excluded.

### **PKF International Limited**

We anticipate that PKF member firms will use the standard if group audits are excluded.

## **PriceWaterhouseCoopers**

If authorised for use in a jurisdiction, there is likely to be a sufficient population of less complex entities to generate a level of interest and demand for its use that could not reasonably be ignored.

## **RSM International**

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

## **Sayer Vincent LLP**

Yes, as it is still likely to be a good value option for our not-for-profit clients so more resources can be spent on their delivery activities.

## **6. Public Sector Organizations**

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

We would continue to use the standard if group audits are excluded.

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

### **Accountancy Europe**

Even if the group audits are excluded, the standard could still be used for less complex non-group audit engagements provided that it is adopted by local authorities.

### **ASSIREVI**

We believe that the proposed standard will be used regardless of the inclusion of group audits. However, the circumstance dealt with at the end of paragraph 157 of the ED, i.e., when a group auditor has to determine whether for the purposes of the audit of the consolidated financial statements the use of the proposed ISA for LCE in the audit of the single components is sufficient, could lead to less utilisation of the proposed standard in the statutory audit of the financial statements of the components. Should the group auditor require the audit of the reporting package prepared for consolidation purposes using the ISAs, it may be inefficient to perform the statutory audit of the financial statements of the same component using the proposed ISA for LCE.

Therefore, if group audits continue to be excluded from the scope of the proposed ISA for LCE, we believe it is necessary for the IAASB to address the question of the auditing standard(s) to be applied for the components of the group. There will be practical implications if the statutory audit of a component can be conducted using the proposed ISA for LCE but ISAs are required, or requested, by the group auditor for audit work at that component due to a requirement to use the ISAs for the group audit opinion.

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

Even if the group audits are excluded, the standard could still be used for less complex non-group audit engagements.

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

Yes, we would.

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

Yes, the standard should be used if group audits are excluded.

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

We believe that the standard will be widely applied in Uganda since the country has very few groups, which as noted above are usually very simple groups with straightforward roles and structures. Therefore, since majority of the audit clients in the country are typically LCEs, then it can be assumed that the standard will be widely used in Uganda.

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

We would still continue to use the standard.

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

YES

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

Yes.

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

Yes, since there are very numerous audits that are not a group audit.

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

Yes, for consistency with the standalone nature of the standard we will be using two sets of standards (ISA and ISA for LCE) with requirements of group audits in ISA 600 Special Considerations – Audits of Group Financial Statements (Including the work of Component Auditors) used for entities excluded from the ISA for LCE.

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

Yes, the exclusion of groups does not remove the relevance of the standard for non group audits that are less complex.

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

Yes.

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

We consider that the standard will be used even if group audits are excluded. The components of the group can be audited using the ISA for LCE, and the group itself can be audited using the ISA 600.

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

The majority of the members in the task group were of the opinion that there are many simple groups in South Africa and that it is not appropriate to scope all group audits out. From a public sector perspective, the standard would still be useable with groups excluded, as the majority of South African public sector entities are not groups, and those that are groups are generally complex and would be outside of the scope of this standard in any case.

## **9. Individuals and Others**

### **Rodoula Roussou**

In Greece, in my view, a Standard for LCE would be very welcomed and would meet the needs of users and other stakeholders and could be used, given the following:

- a. The standard is flexible as discussed in question 1(a) and permits the “top-up”
- b. The audit report should have the same form and wording as the existing types of audit reports as stated in ISA 700

The accounting law classifies entities into 4 categories (large, medium, small, and very small) based on quantitative characteristics (total assets, turnover, and the number of employees). All entities other than PIEs can choose for their Financial Reporting the Greece Accounting Standard (GAS) or IFRS. The vast majority of the entities that use GAS could be classified as LCE especially if the “top-up” was permitted. The above could be used in our jurisdiction as indicators to allow using the standard in small and very small entities, that use GAS (which are similar to IFRS but less complex), by default, but should not exclude audit of other entities too, considering that the standard is appropriate to use, based on their complexity.

Yes, I believe we would use the standard if group audits are excluded. Please also see response to question 17 above.

## **Section 5 – Group Audits\Question 23 - Information about the impact of excluding group audits from the scope of ED-ISA for LCE\Question 23(a) - Would you use the standard if group audits are excluded\1) Yes\1b) Yes but v limited**

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

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

Excluding group audits under ISA for LCE would significantly reduce the number of potential audits at the component level which could be performed in accordance with ISA for LCE.

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

While we did not include group audits in our initial draft of the German LCE auditing standards, we do intend to augment those standards to include group audits for simple groups. Consequently, subject to our other issues in relation to the IAASB LCE standard as noted in our responses to the questions above, our practitioners believe that the scope of application and therefore use of the IAASB LCE standard would be significantly reduced if simple group audits were not included.

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

If all group audits are excluded from the scope of the ISA for LCE, the cases where the ISA for LCE can be used would be substantially limited in Japan. That is because in Japan, many less complex entities that have no characteristics listed in paragraph A.8 and A.9 and thus are expected to be included in the scope of the ISA for LCE are subject to ISA 600 (Revised) as they aggregate the financial information of multiple divisions or other such business units in preparing their financial statements. Examples of such entities include educational institutions (especially kindergartens), social welfare corporations (e.g., special nursing homes for the elderly), public benefit corporations, medical corporations and agricultural cooperatives.

### **5. Accounting Firms**

#### **BDO International**

There will still be audits of single entities that use the standard, but excluding group audits from the proposed LCE standard will reduce the number of audits performed under the LCE standard.

#### **Duncan & Toplis Limited**

Probably, but on significantly less audits.

#### **Mazars**

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

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

#### **Chartered Accountants Ireland**

As noted above, we expect that excluding group audits from the scope of ED-ISA for LCE will significantly impact the use of the standard in Ireland. Most audit firms will audit a significant number of entities that are part of group structures where the group itself would have all the characteristics of a non-complex entity. We expect that firms would not use the ISA for LCE for the audit of any subsidiary entities where the full ISA was required to be used in the audit of the group financial statements as in practice work performed at the group level is often leveraged to meet requirements at the subsidiary audit level and maintaining two different audit file structures would be complex.

#### **European Federation of Accountants and Auditors for SMEs**

We suspect it will be adopted and used even if group audits were excluded.

However, the exclusion of groups may significantly limit the extent to which the standard is used.

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

The following represents the views of our members as a collective and not the views of any specific firm.

Some firms might still use the proposed standard if groups were excluded. However, we believe the exclusion of its use on all group audits would be a significant drawback to a larger number of firms. The main reason is that in the UK an audit is generally only required where a company does not qualify as small. Many of those companies which do not qualify as small operate as part of a group structure. Additionally, in the UK many charities (which have a lower threshold where an audit is required) operate in a group structure.

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

Yes, however, if group audits are completely removed from the scope, it will drastically reduce the number of entities that would qualify to use the standard in some jurisdictions.

### **Nordic Federation of Public Accountants**

In the Nordic region, excluding group audits from the scope of the ED-ISA for LCE would result in significantly less usage.

One matter that should be addressed is whether ISA for LCE can be used for the audit of the parent (and subsidiary) but ISA should be used for the group audit. The use of ISA for the group audit could be based on either the (proposed) prohibition to use ISA for LCE or due to the fact that the group audit is complex. We also think that the IAASB should encourage use of the standard for subsidiaries/ components also for group reporting purposes if the Authority allows the use for the individual company. Otherwise there is a risk that the ISA for LCE will not be used on referred-ins because the group auditor demands an ISA audit.

### **REA Auditores**

We consider that the standard will be adopted and used even if group audits were excluded. However, the exclusion of groups will likely significantly limit the extent to which the standard is used.

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

We suspect it will be adopted and used even if group audits were excluded. However, the exclusion of groups will likely significantly limit the extent to which the standard is used.

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

If group audits are excluded, it will significantly decrease the number of companies who would be eligible to use this standard. I do however believe it will still be used by the remainder of the eligible companies.

## **Section 5 – Group Audits\Question 23 - Information about the impact of excluding group audits from the scope of ED-ISA for LCE\Question 23(a) - Would you use the standard if group audits are excluded\2) No or Unlikely**

### **5. Accounting Firms**

#### **Grant Thornton International Limited**

If ED-ISA for LCE continues to exclude group audits, we would not be able to use this Proposed Standard for a significant portion of our audit engagements. This, in combination with other prohibitions on the use of the Proposed Standard may make the investment in developing and maintaining a new methodology and updating and maintaining the audit tool exceed the potential benefit. Further, given that the Proposed Standard is effectively a sub-set of the requirements in the ISAs, existing methodologies and tools may already have the ability to scale the audit to LCE engagements.

#### **Nexia Smith and Williamson**

Excluding the sorts of groups described in our answer to question 22 from the scope of the Proposed Standard would make it unlikely that we would adopt it. We do not believe that the number of audits falling within the proposed scope is enough for it to be worthwhile for us to adapt our methodology and train our staff.

#### **Price Bailey LLP**

If groups are excluded it will impact our decision as to whether to adopt this standard, as inadvertently it may also impact on whether we would adopt it on subsidiaries within the group as we would have to consider whether that created extra work for the group audit. In order to use this standard firms will need to be comfortable that there will be a sufficient number of clients that they can apply it to and that it is sufficiently different from the main ISA's to justify the extra indirect costs of an extra audit methodology and training.

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

#### **Association of Practising Accountants**

If groups are excluded it will impact firms' decisions as to whether to adopt this standard, as inadvertently it may also impact on whether they would adopt it on subsidiaries within the group if they had to consider whether that created extra work for the group audit. In order to use this standard firms will need to be comfortable that there will be sufficient numbers of clients that they can apply it to and that it is sufficiently different from the main ISA's to justify the extra indirect costs in terms of audit methodology and training etc.

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

Will not use the standard because of it will not be appropriate in achieving audit quality.

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

ICPAI is of the opinion that a sweeping exclusion of all group audits from the framework is incorrect; and therefore, we are concerned that the standard will not be applied.

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

For a variety of commercial, fiscal, operational and historical reasons, the UK has a large number of groups. We performed a survey of our practitioner members in December 2021 on this and other LCE audits issues, the results of which are summarized in Appendix 2.

Included in the survey was a question about the number of group audits performed that might qualify under this standard. The question lacks clarity about how groups are to be counted, in that neither IAASB's nor our question specifies whether sub-groups within groups are to be counted. Nevertheless, it seems clear from our engagement and the results of our survey that most practitioners will be reluctant to apply the standard if groups are excluded. The vast majority of smaller UK firms audit groups and a high number of these are less complex.

## **Section 5 – Group Audits\Question 23 - Information about the impact of excluding group audits from the scope of ED-ISA for LCE\Question 23(a) - Would you use the standard if group audits are excluded\3) Mixed or No Clear Response**

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

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

In September, we invited HKICPA members working in the auditing sector to participate in a Hong Kong specific survey with yes/no questions on the attributes of the ED.

Approximately 67% of the survey respondents indicate that they would use ED-ISA for LCE to audit an entity which is qualified to do so.

The remaining 33% who opts out from using the proposed standard have the following considerations:

Using ED-ISA for LCE does not necessarily reduce the procedures, time and effort compared with an existing ISA audit.

It is burdensome to separately invest in staff training, development of tools etc. to cope with the application of two separate auditing standards which require similar workload.

### **5. Accounting Firms**

#### **Baker Tilly International**

Excluding groups from the scope of the ISA for LCE would repeat mistakes of the past which have led to jurisdictions exploring simplifications for LCEs on their own and reduce the number of audited entities within its scope making it less efficient and thereby less likely for an audit firm to support both ISA audits and LCE audits. We have already seen evidence in parts of Europe where something akin to LCE audits is already allowed that some firms have elected only to provide ISA audits and have withdrawn from the market for LCE audits because they were unable to overcome inefficiencies in supporting both.

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

Our member firms would need to understand the views of the standard-setters and other authorities at the jurisdictional level to determine the effect on the use of the standard in their respective jurisdictions. Overall, however, we would not expect that excluding group audits would preclude use of the standard; rather, there would be many audits that would otherwise seem to qualify for use if not for the fact they are group audits (at least under the proposed Authority).

#### **KPMG IFRG Limited**

As we note in our answer to part (a), we believe there are groups that are not “complex”, with few components and which are located in a single jurisdiction, and it is unhelpful to exclude such groups from the standard. We believe that exclusion of such groups from the standard may significantly reduce the population of entities to which this can be applied. We recommend that the IAASB perform outreach with the LCE Reference Group to obtain greater clarity regarding the population of groups which are otherwise LCEs.

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

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

As noted in our general comments, given that the recently approved ISA 600 (Revised) 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.

(a) Would you use the standard if group audits are excluded? If not, why not?

Feedback from practitioners is that an exclusion of all groups would make the standard less attractive to adopt. There are many non-complex groups and the ability to only audit single entity financial statements

under ISA for LCEs would limit its usefulness. SMPs who choose to use ISA for LCEs would be forced to also maintain a full ISA methodology for group audits. In these circumstances, many practitioners indicated they would be more likely to simply continue with existing methodologies rather than change to ISA for LCEs.

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

Less usage.

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

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

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

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

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

If the group audit is all LCE, it can be used.

## **9. Individuals and Others**

### **Cristian Munarriz**

In my personal opinion, I think that if group audits are excluded the application of the standard would be significantly reduced. Not only for small group audits but also for audits of small components in smaller groups where the group auditor is likely to require the component auditor to apply ISAs if the component is significant to the group.

## **Section 5 – Group Audits\Question 23 - Information about the impact of excluding group audits from the scope of ED-ISA for LCE\Question 23(a) - Would you use the standard if group audits are excluded\4) Proposed Alternative Solution Instead**

### **5. Accounting Firms**

#### **Crowe Global**

See response to question 22.

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.

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

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

As indicated, we are suggesting that this proposed ISA for LCE to be issued as an approved guidance rather than as a separate standalone standard.

Notwithstanding whether it is issued as an approved guidance or a standalone standard, it can still be used even if group audits are excluded though that there may be many less complex entities within the groups that will not be able to benefit.

**Section 5 – Group Audits\Question 23 - Information about the impact of excluding group audits from the scope of ED-ISA for LCE\Question 23(a) - Would you use the standard if group audits are excluded\5) Decision not dependent on Groups**

**6. Public Sector Organizations**

**Audit Scotland**

The inclusion or exclusion of groups would not be a significant factor in whether we used the proposed standard.

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

**Malta Institute of Accountants**

No further comments. We do not think that this is a key criterion for using or otherwise this Standard.

**8. Academics**

**Argentine institute of Auditing Professors**

In Argentina, even if these group audits are included, the ISA for LCE will not be used. However, we understand that in the rest of the countries these standards will be used for less complex entities even though group audits are not contemplated.

**9. Individuals and Others**

**Vera Massarygina**

Possibilities of using the standard does not depend on excluding (or including) group audits from its scope. It depends on other factors. See above.