

Supplement 2-23 to Agenda Item 6

Audits of Less Complex Entities – ED-ISA for LCE –Q24 If group audits are to be included in the scope of ED-ISA for LCE, the IAASB is looking for views about how should be done (please provide reasons for your preferred option): (a) The IAASB establishes a proxy(ies) for complexity for when the proposed standard may be used (“Option 1 - see paragraph 169); or (b) ED-ISA for LCE sets out qualitative characteristics for complexity specific to groups (Option 2 - see paragraph 176), to help users of the proposed standard to determine themselves whether a group would meet the complexity threshold.

Section 5 – Group Audits\Question 24 - If group audits are to be included in ED-ISA for LCE, how should be done\1) Option 1 - Proxy(ies) for Complexity\1a) Component Auditors Only

4. National Auditing Standard Setters

Japanese Institute of Certified Public Accountants

We think that if group audits are included in the scope of the ISA for LCE, IAASB should establish a criterion for complexity which is used to determine the applicability of the proposed standard. As mentioned in our response to Question 22, we also propose that the applicability of the proposed standard should be determined based on the involvement of component auditors.

By using this criterion, we can avoid the unreasonable situation where the ISA for LCE cannot be applied even to audits of less complex entities. Also as for the concern mentioned in the ED-ISA for LCE that the approach to incorporating group audits adds substantial length to ISA for LCE (see paragraph 180), such a problem will not arise because there will be no need to include descriptions about the involvement of component auditors in the ISA for LCE.

As mentioned in our response to Question 23, only 0.05% of statutory audits performed under the “Act on Subsidies for Private Schools” in Japan involves component auditors. Therefore, using the involvement of component auditors as the criterion for determining the applicability of the ISA for LCE may enable the use of the proposed standard for many audits of less complex entities.

5. Accounting Firms

KPMG IFRG Limited

We believe that much of the complexity regarding ISA 600 is in connection with the use of component auditors, i.e., in assessing their competence and capabilities upfront, instructing them and communicating with them, being involved in their work, and evaluating their work.

Accordingly, we recommend that group audits be included within the scope of the standard, in accordance with IAASB’s proposed Option 1 with a proxy for complexity that hinges on whether or not the group engagement team plans to request a component auditor to perform work on the financial information of a component. This would establish a clear boundary that scopes out group audits when component auditors would be used. Additionally, as we note earlier, there is likely to be differing interpretation and application of the LCE ISA, in practice, across different jurisdictions, which would be incompatible with the consistency in approach that would be required in order to perform a cross-border group audit.

Section 5 – Group Audits\Question 24 - If group audits are to be included in ED-ISA for LCE, how should be done\1) Option 1 - Proxy(ies) for Complexity\1b) Other Proxies

4. National Auditing Standard Setters

Malaysian Institute of Accountants

The IAASB could perhaps envision a situation where there is a group made up of less complex entities and base the proposed standard's requirements and guidance on that scenario before adding on complexity to the group (up to a limit where the LCE standard can still be applicable) and consequently adding on to the proposed standard's requirements and guidance that can be scaled accordingly.

Additional factors to consider, in terms of complexities, may include:

Components only operate within one or few (similar or very similar) jurisdiction(s),

There has been no significant use of component auditors/ little use of their work,

When entities or business units have simple operations (e.g. a vessel charter group as in the earlier example)

When the group consists of a parent company and wholly owned subsidiaries or a single entity with branches (the issue of multi-tier holdings and non-wholly owned subsidiaries where there is a need to account for non-controlling interests could be additional factors to be considered).

Option (a) is preferred as this will lead to more consistent treatment.

5. Accounting Firms

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.

PriceWaterhouseCoopers

As noted in our response to question 22, clear criteria would be needed to avoid inconsistent and inappropriate judgements being made on whether or not a group audit was within the scope of the standard. For the reasons we describe in our comments on the Authority section, we believe it will be difficult to describe qualitative characteristics that would not result in significant subjective judgements.

Therefore, we support Option 1 and suggest that, in addition to the overarching quantitative and qualitative criteria established in the Authority, additional proxies for complexity be established in relation to group audits by introducing the following criteria.

Use of the ISA for LCE may be permitted for a group audit when the:

group entity and all components are audited by a single firm;

consolidation does not require adjustments to reconcile financial information of components recorded under a local financial reporting framework to that of the group financial reporting framework; and

group audit does not involve using the work of component auditors.

Consideration could also be given to whether a "jurisdictional boundary" should also form part of the relevant criteria, for example, that the group audit is conducted entirely within one jurisdiction or established geographical region. However, recognising that law, regulation or other jurisdictional agreements may permit or restrict the ability of a firm to operate in a jurisdiction other than its own, this is a matter that is likely best addressed through appropriate jurisdictional tailoring by legislative or regulatory authorities or relevant local bodies with standard setting authority.

RSM International

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

Sayer Vincent LLP

Another potential proxy for complexity could include the levels on control within a group i.e. whether subsidiaries are held directly by a parent or if control is through another member of the group.

7. Professional Accountancy and Other Professional Organizations

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

(a) The IAASB establishes a proxy(ies) for complexity for when the proposed standard may be used (“Option 1 - see paragraph 169); or

This is the option favoured by most stakeholders. There was support for the incorporation of some bright lines into the proxy (such as, potentially, the exclusion of groups that require the use of component auditors or that operate in multiple jurisdictions).

(b) ED-ISA for LCE sets out qualitative characteristics for complexity specific to groups (Option 2 - see paragraph 176), to help users of the proposed standard to determine themselves whether a group would meet the complexity threshold.

Some stakeholders believe that qualitative characteristics may be too judgemental and lead to inconsistent application in practice. Some practitioners have ‘field tested’ the qualitative characteristics by applying it to their clients and found the proxy approach unworkable and led to inconsistent judgements. They suggested that it would not be possible to establish a threshold or a framework that would be prescriptive enough to achieve consistency in application. Whereas, via testing the qualitative characteristics approach with their existing clientele, they found that the resulting judgements were almost always consistent. Additionally, they noted that this approach would allow the standard to be concise and more accessible.

Some of our stakeholders suggested a combination of the two options presented above. For example, use a proxy initially i.e. whether component auditors or operations in multiple jurisdictions are involved and then some judgemental evaluations such as the qualitative characteristics with the decision remaining in the auditor’s judgement.

Malaysian Institute of Certified Public Accountants

We prefer Option 1, i.e. to establish a “cut-off” or threshold for when the proposed standard may be used (these proxies relate specifically to group audits as it is assumed that the group would not otherwise be excluded due to the other limitations set out in the Authority to use the standard). These ‘indicators of complexity’ could include, for example:

The involvement of component auditors.

When entities or business units included in the group financial statements are situated in multiple locations that are in different jurisdictions or subject to different regulatory requirements.

We disagree with Option 2 as it gives rise to the use of more judgement and which may result in different interpretations and inconsistent treatment and application.

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.

Section 5 – Group Audits\Question 24 - If group audits are to be included in ED-ISA for LCE, how should be done\1) Option 1 - Proxy(ies) for Complexity\1c) No Specific Proxy Identified

4. National Auditing Standard Setters

Royal Netherlands Institute of Chartered Accountants (NBA)

We are in favour of Option 1 as this seems to be a simpler, less complex option. Qualitative criteria are subjective.

5. Accounting Firms

BDO International

If group audits are to be included in the scope of ED-ISA for LCE, option 1 would be preferable. Although this introduces a hard cut-off, and could potentially exclude groups that would otherwise be less complex, it significantly reduces the risks where more complex groups are incorrectly determined to be less complex and it removes the (potentially biased) judgment from users. We recognize that it may be difficult for the IAASB to provide a sufficiently comprehensive list of proxies, but such proxies will likely capture most 'less complex' groups.

PKF International Limited

Please see our response in 22 above for our preferred method of presenting ISA requirements on audits of Less Complex Groups within a stand-alone ISA.

Notwithstanding this preference, in our view option (a) above, would lead to more consistent application of the group audit requirements, with option (b) being the more likely of the two options to be susceptible to varying interpretations in the exercise of the auditor's judgement.

RSM International

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

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

Sayer Vincent LLP

We feel that the advantages and weaknesses for each approach have already clearly been identified in the ED.

On reflection it feels as if the proxy might be the clearer option to provide stricter rules in this. While this does introduce the risk that some more straightforward groups could be caught and excluded by the rules, it reduces the risk of inconsistency between auditing firms within one jurisdiction and organisations being able to 'shop around' to find an auditor who might be willing to take the LCE approach when others do not.

7. Professional Accountancy and Other Professional Organizations

Chamber of Auditors of the Republic of Azerbaijan

If group audit engagements are to be included in the scope of ED-ISA for LCE, then, in our opinion, the IAASB should establish a proxy(ies) for complexity for the cases when the proposed standard is applicable.

Confederation of Swedish Enterprise

The two approaches each have different benefits and weaknesses as explained in the ED. On balance, we would prefer option 1 since it is easier to apply and seems to bring more certainty to the assessment of whether the standard can be applied or not. There might also be a cost-benefit issue from an audit client perspective. Applying option 1 might be more effective.

CPA Australia

If group audits were permitted under the LCE standard, then we recommend use of proxies for complexity as described in Option 1. The qualitative characteristics should already have been considered in determining that the entities in the group are LCEs and should not need to be reconsidered in the context of the group itself.

Institute of Certified Public Accountants of Cyprus

We would support Option 1 and, in addition to the quantitative and qualitative criteria established in the Authority, further proxies are determined in relation to group audits.

Institute of Chartered Accountants of Jamaica

Option 1 should be used because it would reduce the level of subjectivity when scoping the groups which could adapt the proposed ISA for LCE.

Instituto dos Auditores Independentes do Brasil

If group audits are to be included in the scope of the proposed standard, option 1 would be preferable.

Instituto Mexicano de Contadores Públicos (IMCP)

The IAASB establishes a proxy(ies) for complexity for when the proposed standard may be used (“Option 1 - see paragraph 169); or

Response:

From our point of view, this approach is more appropriate and may be more objective, since this alternative could establish specific parameters to limit the application of the ISA for LCE for Groups, when conditions or situations such as those described above exist.

ED-ISA for LCE sets out qualitative characteristics for complexity specific to groups (Option 2 - see paragraph 176), to help users of the proposed standard to determine themselves whether a group would meet the complexity threshold.

Response:

The approach of establishing qualitative characteristics to define the application of the LCE standard, if any, can be very subjective and controversial when interpreting qualitative characteristics to define complexity.

Malta Institute of Accountants

In our opinion, Option (a) would be more ideal.

REA Auditores

We hold no strong view but slightly prefer Option 1.

Option 1 seems to be a simpler, less complex option. We prefer the ‘bright lines’ from using a proxy to leaving it for auditors to exercise their professional judgement in applying qualitative criteria. As we mention at the outset above, we have concerns over the subjectivity of using qualitative criteria to determine what is an LCE. We have similar concerns here. We think for consistent application and ease of use it is better to use Option 1.

Society of Certified Accountants and Auditors of Kosovo (SCAAK)

We hold no strong view but slightly prefer Option 1.

Option 1 seems to be a simpler, less complex option. We prefer the ‘bright lines’ from using a proxy to leaving it for auditors to exercise their professional judgement in applying qualitative criteria. As we mention at the outset above, we have concerns over the subjectivity of using qualitative criteria to determine what is an LCE. We have similar concerns here. We think for consistent application and ease of use it is better to use Option 1.

Section 5 – Group Audits\Question 24 - If group audits are to be included in ED-ISA for LCE, how should be done\1) Option 1 - Proxy(ies) for Complexity\ix. Other Comments

5. Accounting Firms

KPMG IFRG Limited

However, we consider that group audits could be scoped in otherwise, subject to the other qualitative characteristics that are proxies for complexity. We suggest that 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 of components; location of operations; whether components are located in jurisdictions which have different language, culture, business practices and fraud risks; the complexity of the consolidation (judgments with respect to boundaries of the group, cross holdings, foreign currency translation, hedging, transfer pricing, complexity with intercompany transactions and eliminations) 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. Under this approach, the material to include regarding group audits would be relatively limited as it would not address component auditors, and therefore would avoid adding to the length of this standard unnecessarily.

We would be concerned that option 2, whilst allowing for more flexibility, as many factors affect the complexity of a group audit and these will vary between group audits, would involve greater use of professional judgement by users of the standard, with consideration of qualitative factors being more subjective. This could lead to inconsistency in practice. We also note that all core requirements of ISA 600 would need to be included in the LCE ISA, which would drive increased length of the standard.

Section 5 – Group Audits\Question 24 - If group audits are to be included in ED-ISA for LCE, how should be done\2) Option 2 - Qualitative Characteristics\2a) Specific Characteristics Suggested

3. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority

The IAASB could consider the size of the subsidiaries.

Finance Professions Supervisory Centre Indonesia

We choose option (b) ED-ISA for LCE sets out qualitative characteristics for complexity specific to groups, to help users of the proposed standard to determine themselves whether a group would meet the complexity threshold. We argue if qualitative characteristics are used to determine whether the proposed standard is appropriate to use for a group audit, the standard will be more clearly applied. The qualitative characteristics, for example: the complexity of the group's structure; the geographic locations of the group's operations; the structure and complexity of the group's IT environment and IT systems; relevant regulatory factors, including the regulatory environment; the ownership, and relationships between owners and other people or entities, including related parties, and the consolidation process used by the group (e.g., sub-consolidations and consolidation adjustments), help users of the proposed standard determine themselves whether a group would meet the complexity threshold for the purpose of using ED-ISA for LCE. Further explanation regarding the qualitative characteristics can be described clearly in the supplemental guidance and the illustrative examples.

4. National Auditing Standard Setters

Canadian Auditing and Assurance Standards Board

We support Option 2. We believe it would be difficult to establish a proxy under Option 1 that would appropriately establish a cut-off or threshold. We note that the IAASB has not attempted to establish a proxy or "bright line" to determine when an entity that is otherwise not prohibited from using the standard can be considered to be an LCE. Rather, ED-ISA for LCE sets out qualitative characteristics that the practitioner considers. We believe it would be appropriate for the IAASB to take a similar approach for group audits. Therefore, we suggest that the IAASB consider the following possible qualitative characteristics to include in the Authority as indicators when group audits do not exhibit complexity and, therefore, ISA for LCE may be used:

when entities or business units included in the group financial statements are:
situated in one jurisdiction;
simple (e.g., car dealerships with several locations but identical operations);
when the group structures are set up for tax planning or risk management purposes;
where there is no involvement of component auditors from outside the firm;
when the group is a parent company with wholly owned subsidiaries; and
when the consolidation process is simple.

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

Yes, we consider that there are proxies for complexity other than what is presented in paragraph 169 that the IAASB should consider. These include for example the number of subsidiaries, their size, the complexity of the group's tax system, the accounting framework (the same for all subsidiaries?), the use of a shared service center abroad. These characteristics must be assessed on a case-by-case basis. None of the indicator detailed in paragraph 169 should be considered in a mechanical and systematic way to confirm the concept of complexity.

Indonesian Institute of Certified Public Accountants (IAPI)

Has been covered in point 22 and 23. In addition to that, several considerations that could be taken:
Consolidation process is relatively straight forward, no complex consolidation or sub-consolidation process involving significant number of subsidiaries
Relatively limited number of multi-location or divergent operations

Less complex IT environment and IT systems
Relatively simple structure and relationship between shareholders and/or related parties

5. Accounting Firms

Ernst & Young Global Limited

Additional proxies based on the criteria for complexity in paragraph 158 could be developed. For example, if there were more than one IT system, the presence of a shared services center, the entity operates in multiple jurisdictions or the entity has certain ownership structures present, then these characteristics would deem the entity more complex and prohibit the use of the ED-ISA for LCE. However, we do not support this option as we believe the determination of whether a group audit is an LCE should be made based on professional judgment considering the facts and circumstances of the entity. However, if the IAASB was to adopt our suggestion to narrow down the criteria in the Authority to make the ED-ISA for LCE applicable to only entities at the lowest level of complexity (i.e., refine the authority of use), then the prohibition to exclude group audits would be more understandable.

Mazars

In our view (b) is the preferred method allowing the auditor to use professional judgement in determining if ISA for LCE can be used for Group. Circumstances to consider in determining complexity in a group could be for example:

Complexity linked to the number of territories, the number of entities, the number of component auditors;
Complexity in the application of accounting principles used by the group accounting (valuation of assets, acquisitions/divestments, contingent payments);

Common applied financial reporting framework, both for the group financial statements and for the components. Existence of significant components (size or risk).

6. Public Sector Organizations

Auditor-General of New Zealand

In our view, the proposed standard should include group audits within its scope by setting out qualitative characteristics for complexity specific to groups to help auditors determine whether a group would meet the complexity threshold.

In our view, the following characteristics would place a group outside the proposed standard: where the components exhibit any indicators of complexity in paragraphs A7 (excluding A7(d) – to be removed), A8, and A9;

where there are components in different jurisdictions to the ultimate parent entity; and
where any of the component auditors are from different audit firms to the group auditor.

An exception should be permitted for components in (ii) and (iii) above that are trivial or inconsequential to the group – such as non-trading or dormant subsidiary companies.

7. Professional Accountancy and Other Professional Organizations

Chamber of Auditors of the Czech Republic

The same/similar qualitative characteristics listed in the paragraphs A.8 and A.9 could be used in determining the authority of the standard for group audit engagements. Additional factors such as those listed in our response to question 22 could be considered as qualitative characteristics for complexity specific to groups.

Indonesian Committee on Public Accountant Profession (KPAP)

Qualitative characteristics in determining the complexity of entities are related to company activities because often, group entities consist of several entities. However, only one or two actively carry out operational activities while the others are only holding companies or only carrying out marketing activities.

Institute for the Accountancy Profession in Sweden (FAR)

In our view (b) is the preferred method allowing the auditor to use professional judgement in determining if ISA for LCE (LCG). Circumstances to consider in determining complexity in a group:

Who is auditing the subsidiaries in the group (same auditor, same network, other territory)

Complexity in the group accounting (valuation, acquisitions/divestments, contingent payments)

Number of entities in the group
Existence of significant components (size or risk)
Applied financial reporting framework, both for the group financial statements and for the components.

Institute of Chartered Accountants of Ghana

We believe the second option (b) on qualitative characteristics would be more appropriate. This will help users to determine whether to use ISA for LCE or to use full ISA when performing financial statement audit for a group. The group audit should be prohibited from use if one of the company among the group is public Interest Entity or fall into the definition of one or more of the prohibited list. Additionally, IAASB can list some of the Industries or specific Industries which when part of the group, are considered complex to be prohibited from using ISA for LCE.

The standard on group audit could be optional if certain percentage of overall revenue is not greater than a certain value to be defined.

Institute of Chartered Accountants of Scotland

Our preference is for option (b). The qualitative characteristics set out at paragraphs A8 and A9 would appear to form a suitable base for this purpose although they would need to be considered in the context of the group. As set out in paragraph 178 of the exposure draft:

“This option would allow the firm or the auditor to consider whether there are matters that give rise to complexity specific to the nature and circumstances of that (group) entity, and would therefore be more consistent with the basic premise of ED-ISA for LCE (i.e., it applies to entities that are less complex, whether or not it is an audit of group financial statements, or whether component auditors are involved, the audit is performed across multiple jurisdictions, etc.). However, in of itself this approach would increase the judgment needed about whether the standard is appropriate or not.”

Whilst this would involve increased judgement by the auditor in terms of the applicability of the standard, they would ultimately be held accountable for its use as part of the respective audit monitoring regime that they are subject to.

International Federation of Accountants’ Small and Medium Practices Advisory Groups

The SMPAG believes that setting out qualitative characteristics for complexity specific to groups would allow for more auditor judgment and would enable more group audits to be able to use this proposed standard.

Potential additional qualitative factors to consider include:

Components only operating within one or few (similar) jurisdiction(s)

There has been no significant use of component auditors/ little use of their work

When entities or business units have simple operations (e.g., car dealerships having several locations, but identical operations)

When the group consists of a parent company and wholly owned subsidiaries or a single entity with branches

When group structures involve consolidation but are set up for tax planning purposes (rather than complex operating purposes)

Nordic Federation of Public Accountants

In our view (b) is the preferred method allowing the auditor to use professional judgment in determining if ISA for LCE (LCG) is applicable. Circumstances to consider in determining complexity in a group:

Who is auditing the subsidiaries in the group (same auditor, same network, other territory)

Complexity in the group accounting (valuation, acquisitions/divestments, contingent payments)

Number of entities in the group

Existence of significant components (size or risk)

Applied financial reporting framework, both for the group financial statements and for the components.

Section 5 – Group Audits\Question 24 - If group audits are to be included in ED-ISA for LCE, how should be done\2) Option 2 - Qualitative Characteristics\2b) No Specific Characteristics Suggested

3. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority

Option 2: Qualitative characteristics are used to determine whether the proposed standard is appropriate to use for a group audit.

This option would allow the firm or auditor to consider a range of factors to determine whether a group would meet the complexity threshold for the purpose of using ED-ISA for LCE. And as the complexity of the LCE change, the factors could be easily expanded or amended as opposed when quantitative characteristics are used as this may result in the LCE not meeting the quantitative thresholds.

Even though this option, would involve significant judgment about the complexity of the group and the determination of the appropriateness of using ED-ISA for LCE, this may not entirely be an adverse characteristic, but may result in the auditor/firm understanding relevant information about the Entity, that would have otherwise been excluded when the quantitative characteristics were used. For example, the qualitative risks of the (group) entity, and this could improve the risk assessment and ultimately the quality of the audit for group audits.

4. National Auditing Standard Setters

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

Option 2 is preferred.

Hong Kong Institute of Certified Public Accountants

We suggest that option 2 be applied in assessing the eligibility to use ED-ISA for LCE in group audits. Option 2 aligns with the principle-based approach and design of ED-ISA for LCE. Following option 2, we suggest that the applicability to use the proposed standard for group audit engagements be evaluated against the qualitative characteristics in the ED.

Indonesian Institute of Certified Public Accountants (IAPI)

Option (b) is more consistent with the basic premise of scoping for ED-ISA for LCE, i.e., based on the qualitative characteristics. The ED-ISA for LCE is a principles-based standard and accordingly, practitioners should be able to use their judgment to determine the applicability of ED-ISA for LCE for a particular group audit based on the characteristics of that group.

The IAASB should consider adding application guidance to assist the practitioners in making such professional judgment

New Zealand Auditing and Assurance Standards Board

The NZAuASB considers that Option 2, where ISA for LCE sets out QCs for complexity specific to groups is more appropriate, to enable the auditor to exercise professional judgement as to whether groups can be scoped in as a LCE. At our outreach events, most participants also considered that QCs should be used to determine whether the proposed standard is appropriate to use for a group audit.

Option 1, including the proxies of complexities examples provided, although easier to apply in practice, carries the risk that the ability to use the standard could drive other decisions about the audit, such as whether component auditors are used or not. The use of component auditors does not necessarily mean the group is complex. We consider it is more relevant to consider the degree of involvement of component auditors in the group audit, which could indicate the degree of complexity of the group structure. However, it is conceptually inconsistent with the IAASB's position that it is the "complexity of the entity" and not the auditor's response that determines complexity. Adopting this approach would be a departure from this principle (i.e., whether component auditors are used (an audit response) determines whether the group is complex).

5. Accounting Firms

Azets Audit Services

Qualitative characteristics would be our preferred option (Option 2) as it aligns with the remainder of the standard, however, we would not be entirely averse to a proxy, for the following reason. Whilst there can be an impact on the complexity of an audit brought about by the involvement of component auditors, this does not necessarily mean that the group, or its qualitative characteristics are complex. A proxy linked to involvement of component auditors is therefore not, in principle, appropriate to a standard for less complex entities (as opposed to a standard for less complex audits). However, practically speaking, many of the less complex group audit engagements we undertake do not involve component auditors and therefore, for us, the exclusion of audits with component auditors may be seen as a pragmatic solution to ensure the standard remains concise in this area.

Baker Tilly International

If you didn't have a standalone ISA for LCE then this would not be an issue.

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

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

Ernst & Young Global Limited

Our preferred option would be for the ED-ISA for LCE to set out qualitative characteristics for complexity specific to group audits (Option 2). The qualitative characteristics could be used to help auditors determine whether the group audit would meet the complexity threshold. This would allow the auditors to exercise professional judgement based on the characteristics of the audit to determine if it is an LCE.

ETY sas

We prefer option (b) more consistent with the basic premise of ED-ISA for LCE as the standard will apply to entities that are less complex, whether or not it is an audit of group financial statements, or whether component auditors are involved, the audit is performed across multiple jurisdictions, etc.

Furthermore we believe a supplementary documentation about the determination of the appropriateness of using ED-ISA for LCE, being "Application and Other Explanatory Material" paragraphs or implementation guides will lower the risks of a misuse of the standard perceived by certain stakeholders.

MHA Monahans

Option b. The proxy option would rule out simple group audits based on rules alone, without auditors being able to use professional judgement. Some group audits have only 2 entities, one of which is overseas. This type of audit has one component auditor which reports on the overseas entity. Both entities are simple, and the group audit is not complex, yet it would be scoped out of using the LCE standard if bright lines were used.

MNP LLP

We are in favour of using qualitative characteristics to determine the complexity specific to groups as no two group entities are the same. This encourages the use of professional judgement. Establishing a proxy (or proxies) for complexity of group audits may unnecessarily preclude certain group entities that are actually less complex and allow for certain group entities that are complex.

7. Professional Accountancy and Other Professional Organizations

ASSIREVI

Assuming that, as a general principle, professional judgement is to be applied to identify an LCE and, therefore, less complex groups, we prefer the second option.

This approach is also more consistent with the concepts underlying the proposed standard although obviously it requires the use of a higher level of judgement by the auditor, which could lead to a greater risk of inappropriate use and the need for more documentation supporting the standard's appropriateness.

Belgian Institute of Registered Auditors (IBR-IRE)

In our opinion, the sole presence of component auditors as such or the entities being located in different jurisdictions does not automatically lead to the fact that a group should be considered as complex. We therefore believe that Option 2 would lead to a broader applicability of the ISA for LCE to group audits if they were to be included in the scope.

Chartered Accountants Ireland

We would support Option (b).

Chartered Governance and Accountancy Institute in Zimbabwe

Most of our members preferred that the proposed standard should set out qualitative characteristics for complexity specific to groups.

Eurasian Group of Accountants and Auditors

We believe that it would be more appropriate to define qualitative characteristics to evaluate the complexity of the group.

Federation of Accounting Professions of Thailand

Option 24(b) is preferable since actual circumstances may not necessarily be reflected by the proxies and may be subjective to manipulations

Indonesian Committee on Public Accountant Profession (KPAP)

KPAP considers that the ED-ISA for LCE better establishes qualitative characteristics (as described in paragraph 158) in determining complexity. The reason is that from these qualitative characteristics can be concluded whether group entities can be included in the less complex entity category.

Institute of Certified Public Accountants in Israel

ICPAI prefers option: (2)

We would like to note that opting for option 2 will not cancel the option available for standard setting entities and regulators in each jurisdiction to add considerations/quantitative thresholds, that will assist auditors to determine whether an entity may be audited under ISA for LCEs.

We would also like to point out that the rules framework of the ISA for LCEs as per Section A6 of the Authority Appendix (p. 64) does not limit regulatory entities in terms of their ability to expand the list.

Institute of Certified Public Accountants of Uganda

We support the view that proposed standard sets out qualitative characteristics for complexity specific to groups to help users of the proposed standard to determine themselves whether a group would meet the complexity threshold.

Institute of Chartered Accountants in England and Wales

Different views were expressed regarding the merits of these options.

On balance, we believe that there is little need for proxies, particularly those relating to multiple locations in different jurisdictions, or regulatory requirements. This is because of the possibility of 'slight' variations in regulatory requirements, and because variations often relate to the nature of the business.

Korean Institute of Certified Public Accountants

We support option (b). Most of the qualitative characteristics applicable to an individual entity can be applied to audits of group financial statements as well, with the only difference being that the qualitative characteristics are considered at a group level, instead of an individual entity level.

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

ONECCA-BF members have shown an overwhelming preference for option (b) considered more consistent with the basic premise of ED-ISA for LCE as the standard will apply to entities that are less complex, whether or not it is an audit of group financial statements, or whether component auditors are involved, the audit is performed across multiple jurisdictions, etc.

Furthermore we believe a supplementary documentation about the determination of the appropriateness of using ED-ISA for LCE, being “Application and Other Explanatory Material” paragraphs or implementation guides will lower the risks of a misuse of the standard perceived by certain stakeholders.

Pan-African Federation of Accountants (PAFA)

PAFA members have shown an overwhelming preference is for the proposed standard to set out qualitative characteristics for complexities specific to groups.

South African Institute of Professional Accountants

We prefer the proposed standard to set out qualitative characteristics for complexities specific to groups.

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

Option 2 is preferable.

Wirtschaftsprüferkammer (WPK)

We prefer option 2 as this option relates to the current Authority.

8. Academics

Brunel University London

Option B appears consistent with other qualitative characteristics for determining LCEs and should be used in case of group audits.

9. Individuals and Others

Cristian Munarriz

I think the option 2 is better, because it reflects the complexity of the group as an entity. Option 1 would not be reasonable as it would create unreasonable outcomes like excluding an entity from the scope of the standard just because there is component auditor working in the audit of a non-significant component. Having to include all ISA 600 requirements should not be an issue because the requirements are relatively easy to comply with for small non-complex groups.

Rodoula Roussou

The second option “B” is preferable.

Section 5 – Group Audits\Question 24 - If group audits are to be included in ED-ISA for LCE, how should be done\2) Option 2 - Qualitative Characteristics\Other Comments

4. National Auditing Standard Setters

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

As mentioned above, we agree to exclude groups from the ED-ISA for LCE as a first step. Then in a second phase (in 2 or 3 years), the IAASB will be able to assess whether it is appropriate to use ISA for less complex groups. ISA 600 has just been revised. The auditors need time to be comfortable with this new standard. Let's apply LCE first as actually proposed, and we will see in 2 – 3 years whether ED-ISA for LCE can be used for less complex groups.

5. Accounting Firms

Baker Tilly International

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

Section 5 – Group Audits\Question 24 - If group audits are to be included in ED-ISA for LCE, how should be done

Files\3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

We suggest a combination of options (1) and (2) where:

The IAASB establishes a proxy(ies) for complexity for when the proposed standard may be used, as this would allow for less professional judgment (Option 1); and

The proposed standard sets out qualitative characteristics for complexity specific to group audits (Option 2). However, as mentioned in our response to question 3, the qualitative characteristics as outlined in the proposed standard should be reworked/amended as they can lead to inconsistent and inappropriate use of the proposed standard.

Files\4. National Auditing Standard Setters

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

We prefer an augmented Option 2 because proxies for complexity may not cover all complexity issues. Option 2 could be augmented by referring to the need to use component auditors.

Files\5. Accounting Firms

Duncan & Toplis Limited

We would lean towards option 2, although with some clear exemptions from being able to be considered less complex. The reason being that professional judgement must be respected and that very few areas of audit lend themselves well to prescriptive rules given the wide-range of possibilities in practice.

Grant Thornton International Limited

We are of the view that elements of both Option 1 and Option 2 should be used to establish the authority for when ED-ISA for LCE may be applied to audits of groups. In our view, the characteristics that are ultimately agreed to be appropriate to be used to determine if an entity can be audited under ED-ISA for LCE should be applied to the group in its entirety. If any entity or component possesses a characteristic that prohibits it from using ED-ISA for LCE, then the standard should not be applied to the group audit. Additionally, although these are matters that pertain to the audit itself, rather than to the entity, we are of the view that the location of the component is an important factor in determining whether it is appropriate to apply ED-ISA for LCE, largely for the reasons stated in the Explanatory Memorandum; that the introduction of different local laws and regulations, different cultures and the potential need for translation, all introduce complexities into the audit that may adversely affect the ability to perform a quality audit under ED-ISA for LCE.

Nexia Smith and Williamson

We believe that group audits could be incorporated into the scope of the proposed standard in the same way as single entity audits, ie using a similar mixture of proxies for complexity and qualitative characteristics of complexity.

We do not believe that these two options are mutually exclusive – please see our answer to question 25 below.

Section 5 – Group Audits\Question 24 - If group audits are to be included in ED-ISA for LCE, how should be done\4) Don't include groups

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. Both options presented in the exposure draft would add complexity to the ED-ISA for LCE, so we do not believe that the options would be appropriate.

7. Professional Accountancy and Other Professional Organizations

Polish Chamber of Statutory Auditors Warsaw (Regional Branch)

In our opinion, consolidated audits should be excluded from the application of this draft standard.

Section 5 – Group Audits\Question 24 - If group audits are to be included in ED-ISA for LCE, how should be done\5) If all components are LCE

5. Accounting Firms

Price Bailey LLP

As noted above should be adopted where all of the different entities within the group would meet the existing definition of being less complex, and there are no particular complexities for the consolidation

SRA

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

4.(a) 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.

7. Professional Accountancy and Other Professional Organizations

Self-Regulatory Organization of Auditors Association (SRO AAS)

It may be worth setting a restriction that this standard can be applied to the audit of the group, if it is not inapplicable for at least one entity of the group.

Section 5 – Group Audits\Question 24 - If group audits are to be included in ED-ISA for LCE, how should be done\7) Unclear or No Steer

4. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

The AUASB supports a 'bright line' determination of which groups are within the scope of the proposed standard.

7. Professional Accountancy and Other Professional Organizations

Association of Practising Accountants

As noted above this should be adopted where all of the different entities within the group meet the existing definition of being less complex, and there are no particular complexities for the consolidation.

Colegio de Contadores Economistas y Administradores del Uruguay (CCEAU)

– In relation to the prohibition of using the standard for Group audits, it is understood that there should be an exhaustive exception of the cases in which it should be used, but making it clear that all situations must occur simultaneously: for example, that all the companies in the group are LCE, that there is only one auditor by jurisdiction, and that there is control (this is where it is already more debatable, because it could be established that 100% of the controlled ones are owned, but sometimes there are companies that have 99% or even 99.9%), it would be needed to find a clear wording that refers to there being a manifest control of the controlling company, for example with a stake of more than 90 or 95% of the share package, in addition to the other normal conditions control.

European Federation of Accountants and Auditors for SMEs

We have no clear preference.

Option 1 may prove to be a simpler, less complex option. The 'bright lines' from using a proxy avoids leaving it for auditors to exercise their professional judgement in applying qualitative criteria. The involvement of component auditors may prove to be a suitable proxy.

Were Option 2 to be pursued we harbor similar concerns to those we have around the subjectivity of using qualitative criteria to determine what is an LCE (see our response to Question 4).

Finnish Association of Authorised Public Accountants

If needed, the scope can be limited either using proxies or qualitative characteristics. For example, international groups could be considered as complex because of differences in national legislation, and perhaps also applicable financial reporting framework might be different (effect of using IFRS?). Another option is to consider groups where the components are audited by other than the group auditor as complex, although this might raise questions for example about immaterial non-consolidated components.

We consider Option 2 better, but we recognize that it leaves more room for judgement and might therefore lead to different interpretation and practices. If diversity between legislations is ok, this matter could also be left for national legislators to decide, because the thresholds for preparing group financial statements as well as the practice of how they are consolidated differ.

Institute of Certified Public Accountants of Rwanda

In our view, we believe that groups that in form of holding companies without trading operations/activities and with no complex transactions that are composed of less complex entities as subsidiaries could also be allowed to use ISA for LCE.

Institute of Chartered Accountants of Namibia

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

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

Multiple levels of structure as it impacts the consolidation and therefore the audit of the consolidation. E.g., Holding company-> subsidiary-> sub-subsidiary.

Across border groups resulting in the need for foreign component auditors which increases the complexity of the audit.

Groups with Non-Controlling Interest.

Groups where there are significant intergroup transactions consisting of unrealised profits, sale of assets, leasing of assets, etc.

Other complex elimination journals e.g. relating to change in ownership within the group.

Institute of Chartered Accountants of Pakistan

We note that the options given in the ED-ISA for LCE have both pros and cons, which are discussed below:

Option 1:

We understand that in this option, a “cut-off” or threshold would be used for example, involvement of component auditors or entities situated in multiple locations. We believe that this option would involve less use of significant judgment to determine the complexity of the group.

Further, in this option, only certain requirements from ISA 600 (Revised) that are relevant for a group audit engagement would need to be incorporated (for example, if the cut-off is the involvement of component auditors, then requirements relating to the work of component auditors could be omitted).

Therefore, this option would be easier to apply.

Option 2:

This option would allow the he auditor to consider whether there are matters that give rise to complexity specific to the nature and circumstances of the group entity. This approach is expected to involve more judgment and documentation about the determination of the appropriateness of using the proposed ISA for LCE. Further, if IAASB opts to use this option, it may require inclusion of all core requirements of ISA 600 (Revised) which may add substantial length to the proposed ISA.

9. Individuals and Others

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.

See para.22 above.