

# IAASB's Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)

ICAS Response

31 January 2022

# Introduction

ICAS welcomes the opportunity to comment on the International Auditing and Assurance Standards Board's (IAASB) 'Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)'.

Our CA qualification is internationally recognised and respected. We are a professional body of over 23,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practices, financial services, industry, the investment community and the public sector. Almost two thirds of our working membership work in business, many leading some of the UK's, and the world's, great companies.

Our Charter requires its committees to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

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## General comments

We congratulate the IAASB on its progress on this initiative and the work that has been undertaken in getting to this stage. We would also highlight our appreciation for the supporting materials that have been produced by the IAASB and its technical staff to supplement this exposure draft, which includes the mapping tables. These have been most helpful in forming an assessment of the proposed standard.

In our response to the IAASB's 2019 discussion paper 'Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs' we set out our vision as to the roadmap to be adopted in relation to the setting of future International Standards on Auditing (ISAs). This was as follows:

"Priority 1 – Develop a separate standard for audits of LCEs based on the key principles in the current ISAs that delivers the same level of assurance and has the same objectives as the current ISA audit.

Priority 2 – The current ISAs should be redesigned and re-drafted to be fully principles-based using a 'plain English' language convention based on the same 'building blocks', or 'think simple first' approach adopted in the development of a separate auditing standard for LCEs as set out in Priority 1 above. Adoption of a true principles-based approach will assist the firms in the more efficient use of technological advancements within their audit processes whilst still complying with the standards.

Priority 3 – In due course, more consideration should be given to converging the two activities above resulting in the ultimate desired option of a single suite of ISAs that can be applied to all audits regardless of size and complexity."

We are still minded that this is the roadmap that the IAASB should follow. We therefore welcome the IAASB's publication of its proposed separate auditing standard for LCEs which is intended to deliver the same level of assurance as an audit undertaken by applying the full suite of ISAs as a first step towards producing standards which are truly proportionate. This reflects our first priority above.

We welcome the logical approach that has been adopted in the drafting of the proposed standard and it is certainly more concise and user friendly to its intended audience than the full suite of ISAs.

A key theme that has emerged from our discussions, however, is that many practitioners, whilst welcoming the approach adopted, are struggling to identify what, if any, the differences will be in practice in terms of what they are required to do in performing an audit of an LCE i.e., is this development, therefore, more form than substance? However, we appreciate that the IAASB faces various competing arguments as it looks to finalise this standard. We are fully supportive of the concept and, despite the concern that has been highlighted above, we believe there is merit in the IAASB finalising a separate standard for the audits of LCEs and the current draft provides a viable basis, subject to revisions as appropriate following the consultation process, for doing so.

Our key ask of the IAASB is not to specifically exclude all groups but rather to consider whether the standard would be appropriate in such circumstances on a basis similar to that applied to standalone entities.

We also believe that the role of the IAASB will be crucial in communicating to the market that an audit undertaken using the finalised ISA for LCE will not be of a lesser quality than that where the full suite of ISAs has been applied. There will undoubtedly be challenges in getting certain jurisdictions to allow the standard to be adopted, however, this should not detract from the benefits of having such a standard available at the global level.

## Responses to consultation questions

### Question 1

Views are sought on:

- (a) **The standalone nature of the proposed standard, including detailing any areas of concern in applying the proposed standard, or possible obstacles that may impair this approach?**
- (b) **The title of the proposed standard.**
- (c) **Any other matters related to ED-ISA for LCE as discussed in this section (Section 4A).**

### Response to Question 1

- (a) We are supportive of the standalone nature of the standard. Of course, such an approach creates a tension between seeking to ensure that the standard is comprehensive i.e., includes the key elements of the full suite of ISAs but at the same time is also more proportionate in terms of the auditing procedures that should be applied on the audits of LCEs. Our biggest area of concern is that the intended scope of the standard excludes all group audits. We also believe that in rare and exceptional circumstances the auditor should be able to supplement their work with additional procedures that would be set out in specific modular add-ons or specific aspects of the relevant ISA(s). Please refer to our response to Question 13 for further details.
- (b) We are supportive of the title of the proposed standard.
- (c) If a decision is made to issue an ISA for LCE then consideration will need to be given to ensuring that there is appropriate education available in the marketplace to help inform those who will be applying the standard. Whilst we appreciate that this is not the role of the IAASB it obviously has a role to play and can assist in helping effective and efficient adoption by issuing further supporting non-authoritative material. In that regard, there would appear merit in creating a version of the IFAC 'Guide to Using International Standards on Auditing in the Audits of Small and Medium Sized Entities' that is specifically based on use of the proposed ISA for LCE. This document has proven to be a valuable resource over a number of years for the audit profession across the globe and could have a key role to play here in promoting use of the ISA for LCE. We appreciate that any such document would purely be for illustrative purposes to demonstrate how the standard could be applied in a given scenario.

## Question 2

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

### Response to Question 2

We agree with the proposed amendments to the IAASB preface on the basis that the proposed ISA for LCEs is issued as a separate standard.

## Question 3

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

In particular:

- (a) Is the Authority as presented implementable? If not, why not?
- (b) Are there unintended consequences that could arise that the IAASB has not yet considered?
- (c) Are there specific areas within the Authority that are not clear?
- (d) Will the Authority, as set out, achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard?
- (e) Is the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions clear and appropriate?

### Response to Question 3

- (a) Ultimately, the decision as to whether the Authority as presented is implementable will be a decision for the body with the authority for issuing auditing standards in a particular jurisdiction. In the UK, the Financial Reporting Council (FRC) has that responsibility. From our perspective the Authority as presented is implementable but that will remain a matter for the FRC to determine in the UK.

However, the Authority would appear 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.

- (b) 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.
- (c) The interaction between the bullets in paragraph A8 could be clearer. We believe that the inclusion of a logic condition, “and/or” would improve the clarity of this particular paragraph. Alternatively, the wording in the lead to the bullets could be revised as follows:

*“A.8. If an audit engagement is not prohibited from use of the [draft] ISA for LCE as set out in paragraph A.7., it would be inappropriate for an audit of the financial statements of the entity to be undertaken using the [draft] ISA for LCE if the entity exhibits **either [or both]** of the following:...”*

In paragraph A9, there is a risk that the wording implies that other relevant matters do not necessarily have to be considered i.e.

“This list is not exhaustive and other relevant matters may also need to be considered.”

We would suggest revising the wording to either: “This list is not exhaustive and, **where applicable**, other relevant matters **would** ~~may also~~ need to be considered.”

Or “This list is not exhaustive, and **any** other relevant matters **would** ~~may~~ also need to be considered.”

Additionally, there appears to be a contradiction in the logic which has been applied in paragraph A9. At the beginning of this paragraph, it states:

*“In accordance with paragraph A.8., the [draft] ISA for LCE is inappropriate for the audit of the financial statements if an entity exhibits one or more of the following characteristics:..”*

At the final part of A9, it then states: *“Each of the qualitative characteristics may on its own not be sufficient to determine whether the [draft] ISA for LCE is appropriate or not in the circumstances, therefore the matters described in the list are intended to be considered both individually and in combination. The presence of one characteristic exhibited by an entity does not necessarily exclude the use of the [draft] ISA for LCE for that entity.”*

We believe that this needs to be clarified as to whether the presence of one of the qualitative characteristics is sufficient of itself to prohibit use of the proposed ISA for LCE.

- (d) We appreciate this is a difficult task given the inclusion of qualitative criteria, of which we are supportive, and will be easier for some stakeholders to understand than others. The inevitable degree of subjectivity that is present may lead to some stakeholders e.g., the owners/management of audited entities having differing views from an audit firm on application of certain of the qualitative characteristics. Despite this, and subject to the matters on which we have sought clarification above, we believe that the proposed Authority will help to achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard.
- (e) The proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions is clear and appropriate.

#### **Question 4**

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

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

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

#### **Response to Question 4 (a) and (b)**

We are supportive of the IAASB’s general approach re prohibiting the use of the proposed standard for certain classes of entities, and in addition, describing those qualitative characteristics that would also make the standard inappropriate to use (i.e., collectively describing when the proposed standard is inappropriate for use because the audit would not be considered an audit of an LCE).

With regards to paragraph A7 C, we assume that the IAASB will consider the need to update the specific prohibitions to align with the IESBA’s finalised revisions (December 2022) to its Code of Ethics arising from its ‘Definition of Listed Entity and Public Interest Entity’ project. This will of course involve consideration of whether the term “listed entity” should be replaced by the term “publicly traded entity” although we appreciate this is likely to form part of a separate IAASB project as any such change would have wider implications.

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?

At paragraph A13, we wonder whether it would be advisable to highlight: “whether use of the proposed standard is specifically allowed in a particular jurisdiction”?

#### **Question 5**

**Regarding the Authority Supplemental Guide:**

- (a) Is the guide helpful in understanding the Authority? If not, why not?**
- (b) Are there other matters that should be included in the guide?**

#### **Response to Question 5**

- (a) Yes, we believe that the Authority Supplemental Guide is helpful in understanding the Authority.
- (b) We are not aware of other matters that should be included in the guide.

#### **Question 6**

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

#### **Response to Question 6**

As we have noted above, consideration needs to be given as to whether the IAASB will adopt the changes that were made to the definition of a “public interest entity” by the IESBA and we would ask the IAASB to revisit its stance on excluding all groups.

Other than that, we are not aware of any other matters relating to the Authority that the IAASB should consider as it progresses the ED-ISA for LCE to finalisation.

#### **Question 7**

**Views are sought on the key principles used in developing ED-ISA for LCE as set out in this Section 4C.40 Please structure your response as follows:**

- (a) The approach to how the ISA requirements have been incorporated in the proposed standard (see paragraphs 74-77).**
- (b) The approach to the objectives of each Part of the proposed standard (see paragraphs 78-80).**
- (c) The principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management (see paragraphs 81-84)**
- (d) The approach to EEM (see paragraphs 85–91) including:**
  - (i) The content of the EEM, including whether it serves the purpose for which it is intended.**
  - (ii) The sufficiency of EEM.**
  - (iii) The way the EEM has been presented within the proposed standard.**

#### **Response to Question 7**

- (a) On balance, to meet the expectations of all the various stakeholders, we are supportive of the approach that has been adopted i.e., using the ISAs as the starting point for designing the ED-ISA for LCEs and having a risk-based audit approach with principles-based requirements. Therefore, we welcome the fact that the ED-ISA for LCE refers to the same overall objective and uses basic concepts from the ISAs. This has the advantage that it is clearer to stakeholders as to why compliance with the proposed standard should lead to reasonable assurance being obtained.

We believe that there is potentially more scope to further differentiate the ISA for LCEs from the full ISAs to better meet the audit environment of LCEs, particularly in areas such as risk assessment and internal controls. However, we appreciate that this may not be seen as a viable option from the regulatory community. Therefore, on balance we are supportive of the approach adopted.

- (b) We are supportive of the approach adopted.
- (c) We are supportive of the approach adopted.
- (d)
  - (i) We are supportive of the content of the EEM and believe that it serves the purpose for which it is intended.
  - (ii) We believe that sufficient and appropriate EEM has been included. It is a fine balancing act in terms of what level of EEM should be included but we believe that a reasonable compromise has been struck.
  - (iii) We are supportive of the manner in which the EEM has been presented within the proposed standard.

### **Question 8**

**Please provide your views on the overall design and structure of ED-ISA for LCE., including where relevant, on the application of the drafting principles (paragraph 98-101).**

#### **Response to Question 8**

We welcome the proposed overall design and structure of the ED-ISA for LCE. The approach adopted is user friendly and easy to read for practitioners and indeed for other stakeholders. The additional EEM approach is also welcomed as this helps to facilitate exactly what is expected of the auditor. The recent introduction of the e-International Standards (eIS) platform will also help facilitate more efficient navigation of the standard and easy access to any supporting non-authoritative material although it will of course need to be clear to highlight the status of such content.

We also believe that the drafting principles have been applied in an appropriate manner.

### **Question 9**

**Please provide your views on the content of each of Parts 1 through 8 of ED-ISA for LCE, including the completeness of each part. In responding to this question, please distinguish your comments by using a subheading for each of the Parts of the proposed standard.**

#### **Response to Question 9**

We are broadly supportive of the content of each of Parts 1 through 8 of ED-ISA for LCE and found the mapping documents very useful in forming this assessment. Our specific comments are set out below. We do not view any of these of being of a fatal flaw nature.

Our specific comments are as follows:

#### **PART 1: FUNDAMENTAL CONCEPTS, GENERAL PRINCIPLES AND OVERARCHING REQUIREMENTS**

##### Paragraph 1.4.4 – Professional Judgement

Given how prominently references to financial reporting feature in the bullets of paragraph A25 of ISA 200, should there not likewise be a reference in paragraph 1.4.4 of the ED-ISA for LCE to the applicable financial reporting framework given its importance in this context?

*“Professional judgment is essential to the proper conduct of an audit. This is because interpretation of relevant ethical requirements and this [draft] standard and the informed decisions required throughout the audit cannot be made without the application of relevant knowledge and experience to the facts and circumstances.”*

##### Paragraph 1.7

In the context of LCEs it would appear useful as a reminder to highlight in EEM that the risk of related party transactions in such entities is not likely in many instances to be mitigated by an entity’s system of internal control.

#### PART 4: ACCEPTANCE OR CONTINUANCE OF AN AUDIT ENGAGEMENT AND INITIAL AUDIT ENGAGEMENTS

Particularly in a situation where an entity is being audited for the first time by the firm concerned, the firm's knowledge of the audited entity will be enhanced following its work on the identification and assessment of risks. In some situations, as a result of the additional information obtained, this may lead to the auditor arriving at a conclusion contrary to their earlier assessment that use of the ISA for LCE was appropriate for the engagement concerned. Therefore, we believe that there would be merit in the inclusion of EEM highlighting that the engagement letter should specifically include the possibility of such an occurrence and allow for appropriate transitioning of the audit to the full suite of ISAs.

#### PART 5: PLANNING

We are cognisant that materiality is an area where auditors often seek guidance. Whilst we would not propose the inclusion of additional EEM in this regard, this may be an area that is ripe for development of non-authoritative material.

#### PART 8: CONCLUDING

##### Paragraph 8.5.9

We believe the linkage here between the final sentence of the main paragraph and the opening words of the two bullets could be improved as illustrated below.

"If the auditor concludes, based on the audit evidence obtained, that management's use of the going concern basis of accounting is appropriate in the circumstances, but a material uncertainty exists, the auditor shall determine whether adequate disclosure about a material uncertainty related to going concern has been made in the financial statements, including of:

- (a) ~~Adequately disclose~~ the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
- (b) ~~Disclosing clearly~~ **the existence of** ~~that there is~~ a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business."

Alternatively, "disclose" in (a) could be replaced by "disclosing".

##### Paragraph 8.7.1

"Prior to dating the auditor's report, the engagement partner shall determine that the engagement partner has taken overall responsibility for managing and achieving quality on the audit engagement.

In doing so, the engagement partner shall determine that:

- (a) The engagement partner's involvement has been sufficient and appropriate throughout the audit engagement such that the engagement partner has the basis for determining that the significant judgments made and the conclusions reached are appropriate given the nature and circumstances of the engagement; and
- (b) The nature and circumstances of the audit engagement, any changes thereto, and the firm's related policies or procedures have been taken into account."

The term "engagement partner" is used considerably in this paragraph, we suggest that this wording could be refined.

##### Paragraph 13 of ISA 705

We are not convinced that management imposing a limitation on scope is necessarily a rare occurrence. We believe the ISA for LCE would benefit from inclusion of the need to consider withdrawing from the engagement depending on the nature and extent of the limitation.



#### **Question 10**

**For Part 9, do you agree with the approach taken in ED-ISA for LCE with regard to auditor reporting requirements, including:**

- (a) The presentation, content and completeness of Part 9.**
- (b) The approach to include a specified format and content of an unmodified auditor's report as a requirement?**
- (c) The approach to providing example auditor's reports in the Reporting Supplemental Guide.**

#### **Response to Question 10 (a), (b) and (c)**

We agree with the approach taken in ED-ISA for LCE with regard to the auditor reporting requirements.

#### **Question 11**

**With regard to the Reporting Supplemental Guide:**

- (a) Is the support material helpful, and if not, why not?**
- (b) Are there any other matters that should be included in relation to reporting?**

#### **Response to Question 11**

- (a)** We believe that the support material is helpful.
- (b)** We are not aware of any other matters that should be included.

#### **Question 12**

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

#### **Response to Question 12**

Please refer to our response to Question 9 above.

#### **Question 13**

**Please provide your views on transitioning:**

- (a) Are there any aspects of the proposed standard, further to what has been described above, that may create challenges for transitioning to the ISAs?**
- (b) What support materials would assist in addressing these challenges?**

#### **Response to Question 13 (a) and (b)**

This is one of the key areas that needs to be properly addressed before the proposed standard can be finalised. It undoubtedly brings practical challenges but these in our view can be overcome. It should only be in rare and exceptional circumstances where such situations will arise, and audit quality must be at the forefront of the approach determined to deal with any such matters. Therefore, we would propose that it would depend on the significance of the matters identified as to whether there would need to be an immediate transition to use of the full ISAs during an audit engagement where fieldwork had already commenced. Rather, if the matters relate to one or a small number of complex elements (and depending on their pervasiveness and significance) then the option should be available to the auditor to be able to supplement the work required in those specific complex areas with additional procedures that would be set out in specific modular add-ons or specific aspects of the relevant ISA(s). Such modules would need to be viewed as only to be applied in these rare and exceptional circumstances and not to be adopted on an ongoing basis. Ultimately, the auditor would need to consider as to whether application of such additional procedures would lead to them having sufficient and appropriate audit evidence.

**Question 14**

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

**Response to Question 14**

We are supportive of the proposed approach.

**Question 15**

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

**Response to Question 15**

We are supportive of the principle that early adoption should be permissible. This would provide the opportunity for audit firms to avail themselves of the latest version of the standard as early as is possible.

**Question 16**

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

**Response to Question 16**

We are not convinced by the need to include a separate Part on the ISA-800 series in the ED-ISA for LCEs. We believe it is preferable for the focus on the ISA for LCEs to be solely on an audit of general-purpose financial statements.

**Question 17**

**In your view, would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion and for which the proposed standard has been developed? If not, why not. Please structure your comments to this question as follows:**

- (a) Whether the proposed standard can, and will, be used in your jurisdiction.**
- (b) Whether the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.**
- (c) Whether there are aspects of the proposed standard that may create challenges for implementation (if so, how such challenges may be addressed).**

**Response to Question 17**

- (a) We believe that the proposed standard could be used in the UK. However, its use in the UK is ultimately a matter for the FRC to determine.
- (b) We believe that the proposed standard, subject to the necessary revisions that we have highlighted, in particular, extending its scope to include groups, would meet the needs of all stakeholders of LCEs.
- (c) We are not aware of any such aspects.

**Question 18**

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

**Response to Question 18**

There are no other such matters which we believe the IAASB should consider as it progresses the proposed standard to finalisation. The post implementation review of this standard will have a major role to play to determine whether the standard has satisfied the demand that appears to be present for a standard of this nature and to determine whether there are any significant matters that need to be addressed.

This whole project needs to be viewed as part of a journey that will continue to evolve.

### **Question 19**

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

#### **Response to Question 19**

Webinars and videos explaining the key aspects of the finalised standard would be useful.

There would also appear merit in creating a version of the IFAC 'Guide to Using International Standards on Auditing in the Audits of Small and Medium Sized Entities' that is specifically based on use of the proposed ISA for LCEs. This document has proven to be a valuable resource over a number of years for the audit profession across the globe. As the IAASB states at paragraph 7 of Mapping Document 1:

"EEM has been included to further explain concepts or procedures in the requirements or why procedures are undertaken, but generally does not explain 'how' the procedures should be implemented (e.g., there are no detailed examples)."

Such a guide would provide the opportunity to illustrate how the procedures could be implemented in specific circumstances whilst making clear that professional judgement would need to be applied by the auditor in the particular circumstances that they face.

### **Question 20**

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

#### **Response to Question 20**

We have no comments on translation.

### **Question 21**

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

#### **Response to Question 21**

We are supportive of the proposed effective date.

### **Question 22**

**The IAASB is looking for views on whether group audits should be excluded from (or included in) the scope of ED-ISA for LCE. Please provide reasons for your answer.**

#### **Response to Question 22**

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.

### **Question 23**

**Respondents in public practice are asked to share information about the impact of excluding group audits from the scope of ED-ISA for LCE on the use of the proposed standard. In particular:**

- (a) Would you use the standard if group audits are excluded? If not, why not?**
- (b) Approximately what % of the audits within your firm or practice would be group audits that would likely be able to use ED-ISA for LCE (i.e., because it is likely that such group audits could be considered less complex entities for the purpose of the proposed standard) except for the specific exclusion?**

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

#### **Response to Question 23**

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

- (a) 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.
- (b) We are not in a position to respond to this question.
- (c) Where the group does not contain a listed entity or other form of public interest entity and does not have complex operations or transactions. The qualitative criteria set out in paragraphs A8 and A9 would appear appropriate for this purpose. Groups that might commonly satisfy the necessary criteria would include those with a simple holding company type structure. We would emphasise that each group would need to be looked at on a case-by-case basis to determine whether it is deemed to be of a less complex nature.

#### **Question 24**

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

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

#### **Response to Question 24**

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.

#### **Question 25**

**Are there other ways that group audits could be incorporated into the scope of the proposed standard that is not reflected in the alternatives described above? For example, are there proxies for complexity other than what is presented in paragraph 169 that the IAASB should consider?**

#### **Response to Question 25**

In light of our response to Question 24 we do not believe that there is a need to consider any such matters.

**Question 26**

**If group audits are included in ED-ISA for LCE, how should the relevant requirements be presented within the proposed standard (please provide reasons for your preferred option):**

- (a) Presenting all requirements pertaining to group audits in a separate Part; or**
- (b) Presenting the requirements pertaining to group audits within each relevant Part.**

**Response to Question 26**

We would prefer option (a) i.e., presenting all requirements relating to group audits in a separate Part of the proposed ISA for LCE as we believe this would be clearer.

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**Contact us**

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