

31 January 2022

Dear Sir/Madam

## **Comment letter: Exposure Draft, Proposed International Standard on Auditing of Financial Statements of Less Complex Entities**

Azets welcomes the opportunity to comment on the [Exposure Draft, Proposed International Standard on Auditing of Financial Statements of Less Complex Entities](#) (ED-ISA for LCE) published by IAASB on 23 July 2021.

Azets Audit Services is a UK audit firm that is part of Azets, a large accountancy and business advisory group that delivers accounting, tax, audit, business, and advisory services in the UK and internationally. We were established in August 2016 and, backed by Hg, one of the UK's leading private equity investors, have grown rapidly to a position whereby we now have over 6,500 employees and work with over 120,000 clients and customers.

We audit several thousand UK entities. Unlike many other larger UK audit firms, we do not currently undertake audits of Public Interest Entities, though we do audit listed, public sector, corporate, other entities of public interest and not-for-profit entities. A significant proportion of entities that we audit would be considered as less complex entities using the prohibitions and characteristics outlined in the ED ISA for LCE.

We have included responses to consultation questions as appendices to this letter and highlight a summary of key themes from our responses below. Azets Audit Services' response does not reflect positioning of all audit firms across the Azets family due to separate strategies and market focus.

### **Key points**

- **We have concerns that in jurisdictions like the UK, a standard-setter and/or regulator may not consider that the adoption of ED-ISA for LCE supports the requirements of high-quality audit**  
As an auditor of a significant number of less complex UK entities, we strongly disagree with this view. We believe that the ED-ISA for LCE will act as a catalyst for positive change and help eliminate behaviours that can have a negative impact on the quality of LCE audits.

ED-ISA for LCE should be viewed as a means of improving the quality of LCE audits, rather than a barrier to it. It is a gateway for thinking auditors to audit an LCE proportionately that will encourage thinking over form-filling. We consider that ED-ISA for LCE represents a significant forward step toward addressing proportionality in less complex entity audits.

Cont.

We are an accounting, tax, audit, advisory and businesses services group that delivers a personal experience both digitally and at your door.

**Accounting | Tax | Audit | Advisory | Technology**

- **We strongly encourage the IAASB to continue to work with standard setters and regulators**  
It is in the wider public interest that IAASB continue to make clear the challenges presented in the proportionate application of extant ISAs to an LCE and the ability to provide the same degree of assurance through a “pre-distilled” regime such as that proposed through the ED-ISA for LCE. The creation of a legitimate framework upon which to build LCE audit solutions gives credibility to proportionality and will help to drive the innovation and investment needed for the delivery of high-quality audits in the LCE market.
- **We do not agree with the approach to groups**  
We consider that the audit of groups being scoped out at the ED-ISA for LCE Specific Prohibitions Level is inappropriate and recommend that this should be left to Jurisdictional Level Limitations based on local factors.
- **There is opportunity for further distillation**  
We consider that there are some areas where the standard could benefit from further dis-application, or simplification of extant ISA requirements. Whilst the approach taken to structuring ED-ISA for LCE is not as radical as it could be, we are, on the whole, supportive of its structure as drafted as a mechanism facilitating transition and being used as part of a wider group approach or across jurisdictions or engagements with differing requirements.

We would like to take this opportunity to thank IAASB for the opportunity to respond to this consultation. If you would like further feedback or input as part of your outreach activities, please feel free to contact us.

A handwritten signature in black ink, appearing to be 'David Smith', written in a cursive style.

Yours Sincerely  
David Smith  
UK Head of Audit Quality & Technical  
**Azets Audit Services**

Email: [david.p.smith@azets.co.uk](mailto:david.p.smith@azets.co.uk)

## Appendix 1: ED-ISA for LCE Detailed Comments

<b>Section 4A – Overarching Positioning of ED-ISA for LCE</b>	
1	<p>Views are sought on:</p> <ul style="list-style-type: none"> <li>(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?</li> <li>(b) The title of the proposed standard.</li> <li>(c) Any other matters related to ED-ISA for LCE as discussed in this section (Section 4A).</li> </ul>
	<p><b>Response</b></p> <ul style="list-style-type: none"> <li>(a) We agree with the approach taken in making the ED-ISA for LCE standalone and consider this to be the only practical solution that can be delivered in the desirable timeframe.</li> </ul> <p>There are potential obstacles in the application of a standalone standard, such as difficulties encountered when an entity evolves (or upon further understanding is found) to be outside of scope of the ED-ISA for LCE; where group audits are conducted under ISAs where components are less complex; and application of a “multi-tier” approach within audit firm training and methodologies. However, we consider that none of these obstacles are insurmountable.</p> <p>The benefits of a standalone standard that can be read and understood, as a single document, by a less complex entity auditor outweigh the obstacles of adoption. Benefits also outweigh the risks to audit quality of continuing to require the application of a suite of extant ISA requirements to LCE audits. See also our response to 3(b) regarding potential obstacles in terms of jurisdictional adoption.</p> <p>A single, LCE-standard, should be seen as a catalyst toward improving the quality of LCE audits, rather than a barrier to it. It is a gateway for thinking auditors to audit an LCE proportionately that will encourage thinking over form-filling.</p> <p>The extant standards have, for some time, been subject to improvements drafted principally in response to the needs of entities that are individually of significant public interest. However, this has led to implications for the many audits of entities that make up the wider patchwork quilt of public interest. The extant standards are extensive and the exercise of establishing requirements that apply to a LCE can lead to non-desirable behaviours, such as a checklist mentality, whereby an auditor does not see the wood for the trees as their focus shifts toward compliance, rather than the audited entity and its environment. A move to a single, sensibly scoped, standard is a positive action that will help ensure that public interest is served through a wider lens.</p> <p>In conclusion, we believe that ED-ISA for LCE is the right solution for now but there is still a need to consider how the entire suite of ISAs can be built to consider less complex entities first. In many jurisdictions, including the UK in our experience, the number of LCE audits significantly outweigh the number entities that many ISA revisions in recent years have targeted – for us, an LCE audit is “the norm”. ED-ISA for LCE represents a pragmatic, but positive development in this significant segment of the audit market.</p> <ul style="list-style-type: none"> <li>(b) The title of the standard is appropriate.</li> <li>(c) No further comments.</li> </ul>

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?
	<p><b>Response</b></p> <p>Yes.</p>
<b>Section 4B – Authority of the Standard</b>	
3	<p>Views are sought on the Authority (or scope) of ED-ISA for LCE (Part A of the proposed standard). In particular:</p> <ul style="list-style-type: none"> <li>(a) Is the Authority as presented implementable? If not, why not?</li> <li>(b) Are there unintended consequences that could arise that the IAASB has not yet considered?</li> <li>(c) Are there specific areas within the Authority that are not clear?</li> <li>(d) Will the Authority, as set out, achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard?</li> <li>(e) Is the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions clear and appropriate?</li> </ul>
	<p><b>Response</b></p> <p>(a) Yes. The qualitative approach taken to scoping appears implementable in an international sense. We do not agree that the scoping out of groups at the ED-ISA for LCE Specific Prohibitions Level and that this should be left to Jurisdictional Level Limitations based on the nature of groups prevalent locally. We audit many UK groups, for example, that are less complex at the component and collective level. This may be because of there being different drivers to incorporation in a group structure in the UK to that seen in other jurisdictions, leading to greater prevalence of less complex groups. In the UK, we believe that scoping out groups could undermine the case for adoption of the ED-ISA for LCE on a firm-wide basis.</p> <p>(b) We have concerns that in jurisdictions like the UK, a standard-setter and/or regulator may not consider that the adoption of ED-ISA for LCE supports the requirements of high-quality audit. We strongly disagree with this view, and strongly encourage the IAASB to continue work with these standard setters / regulators to make clear the challenges presented in the proportionate application of extant ISAs to an LCE and the ability to still provide the same degree of assurance through a “pre-distilled” regime such as that proposed through the ED-ISA for LCE.</p> <p>It can take a long time to work out the bits of extant ISAs that are not required for an LCE audit when compared to the amount of time spent obtaining evidence. Having to tailor from an extant ISA framework that has evolved to perform a function in a more complex environment also leaves parts that are too bulky to provide the agility required in a less complex environment - this affects the quality of LCE engagements.</p> <p>For us, the LCE audit is the normality. Whilst we believe a building block approach to ISAs that think about less complex entities first and build in complexity where needed is the right answer, we think the standalone standard is the right solution for now.</p> <p>The absence of an LCE-first solution creates a significant risk that many firms might decide that they don't want to audit anymore. This will cause significant implications for choice and competition in the LCE audit market and risks the loss of expertise of those working with and auditing LCEs as part of their day-to-day role. Whilst not perfect, and not scaled down in all respects, the ED-ISA for LCE provides a far more proportionate point of reference than we have under the extant ISAs.</p>

	<p>One other consideration is the link to regulation and monitoring. We believe that current regulation of extant ISAs, when applied to LCE audits, can reinforce behaviours at a firm, methodology and individual level that undermine the achievement of high-quality audits for those engagements. The creation of a legitimate framework upon which to build less complex entity audit solutions will provide credibility to proportionate auditing and represent a valuable investment in this area that is needed to ensure high quality LCE audits going forward. This, in turn, may help influence monitoring behaviours that can currently drive a firm, its methodology and audit teams to focus on evidence of consideration of the applicability of an ISA requirement rather than evidence to support their opinion.</p> <p>(c) One of the issues with qualitative characteristics is that they are in the eye of the beholder. One person's complex ownership structure, accounting estimate methodology or sector may be another person's bread and butter. This may lead to quantitative override at the Jurisdictional or Firm level. This is not in and of itself a fatal flaw, but it may impact on the standard's application at the engagement level and need for additional guidance to facilitate appropriate adoption.</p> <p>(d) The Authority section of ED-ISA for LCE is relatively complex and should be reviewed for use of clear, simple, and concise language. The creation of flowcharts to support it would assist in its application and stakeholder understanding. For example, an extension of the flowchart included at Paragraph 50 of the Exposure Draft would be desirable to clearly, and visually, illustrate qualitative measures. See comments on the Supplemental Guidance for the Authority of the Standard below.</p> <p>(e) Yes.</p>
4	<p>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:</p> <p>(a) Specific prohibitions; and (b) Qualitative characteristics.</p>
	<p><b>Response</b></p> <p>(a) We agree with many of the specific prohibitions outlined in A5 to A8 of ED-ISA for LCE.</p> <p>However, we strongly disagree with the prohibition in respect of audits of group financial statements. As noted above, the complexity of many UK groups and their component parts is low. This may not be the case in other jurisdictions; hence it is recommended that this is removed from ED-ISA for LCE Specific Prohibitions Level and that it should be left to Jurisdictional Level Limitations based on the nature of groups prevalent locally.</p> <p>Similarly, from our experience in the UK, we do not agree that post-employment benefit providers such as pension schemes are implicitly complex in all cases and that they should be included at the ED-ISA for LCE Specific Prohibitions Level.</p> <p>(b) See responses to 3(c) and 3(d) above.</p>
5	<p>Regarding the Authority Supplemental Guide:</p> <p>(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?</p>
	<p><b>Response</b></p> <p>(a) Yes, the Authority Supplemental Guide clarifies the authority.</p>

	(b) The application material included in the Supplemental Guide is comprehensive. It is, however, very long, which is a factor both of using nuanced and subjective qualitative characteristics and its presentation as a separate guide.
6	Are there any other matters related to the Authority that the IAASB should consider as it progresses ED-ISA for LCE to finalization?
	<p><b>Response</b></p> <p>No further comments.</p>
<b>Section 4C – Key Principles Used in Developing ED-ISA for LCE</b>	
7	Views are sought on the key principles used in developing ED-ISA for LCE as set out in this Section 4C. Please structure your response as follows: <ul style="list-style-type: none"> <li>(a) The approach to how the ISA requirements have been incorporated in the proposed standard (see paragraphs 74-77).</li> <li>(b) The approach to the objectives of each Part of the proposed standard (see paragraphs 78-80).</li> <li>(c) The principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management (see paragraphs 81-84).</li> <li>(d) The approach to EEM (see paragraphs 85–91) including: <ul style="list-style-type: none"> <li>i. The content of the EEM, including whether it serves the purpose for which it is intended.</li> <li>ii. The sufficiency of EEM.</li> <li>iii. The way the EEM has been presented within the proposed standard.</li> </ul> </li> </ul>
	<p><b>Response</b></p> <p>(a) We believe that the distillation of extant ISAs into a standard that eliminates areas considered non-relevant is the right approach as it facilitates transition and gap analysis. Linked to our response in the context of groups below, there is capacity to build on the foundation of the core standard with additional areas that may be relevant, but less common in the context of a less complex entity.</p> <p>(b) We agree with the principles used in developing the objectives of each Part.</p> <p>(c) We agree with the principles used in relation to professional scepticism and professional judgement, relevant ethical requirements, and quality management. We recommend that more is done to specifically address documentation requirements applicable to LCE audits in order that proportionate effort is required in documentation as well as seen through application.</p> <p>(d) The approach and content of essential explanatory material is good, and the structure helps auditors to obtain guidance within the flow and the context of the requirements, similar to that seen where draft ISAs are presented in tabular fashion with the application material in the right column.</p>
<b>Section 4D – Overall Design and Structure of ED-ISA for LCE</b>	
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).
	<p><b>Response</b></p> <p>The overall design and structure are appropriate. There is opportunity for further simplification, but the audit workflow driven structure makes sense and helps with the flow of understanding standalone standard.</p>
<b>Section 4E – Content of ED-ISA for LCE</b>	
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.

	<p><b>Response</b></p> <p>We are broadly supportive of the approach taken across most parts of ED-ISA for LCE, with matters for further consideration highlighted in our response to question 12 below.</p>
10	<p>For Part 9, do you agree with the approach taken in ED-ISA for LCE with regard to auditor reporting requirements, including:</p> <ul style="list-style-type: none"> <li>(a) The presentation, content and completeness of Part 9.</li> <li>(b) The approach to include a specified format and content of an unmodified auditor’s report as a requirement?</li> <li>(c) The approach to providing example auditor’s reports in the Reporting Supplemental Guide.</li> </ul>
	<p><b>Response</b></p> <ul style="list-style-type: none"> <li>(a) For audits of less complex entities, there is a need to take auditor reporting back to the requirements of the stakeholders, focussing on those areas that add value to them. Stakeholder needs of a less complex entity may differ significantly, though are often not as complex as those of many other entities subject to audit in accordance with ISAs. The format of the report, requirements and guidance appear appropriate, however further opportunity may arise that eliminates the likelihood of unnecessary boilerplate reporting being presented to the addressees of the report. An example in this context may include reporting on “other information” where the content outlined in 9.8.10 is valid, but the additional words generated on the report may add little value. It is recommended that the IAASB perform stakeholder analysis on the users of LCE auditor reports to establish their needs.</li> <li>(b) This approach works in the context of a singular type of reporting entity, however, IAASB should consider jurisdictions (such as in the UK) where there is significant variation of core reporting requirements driven by interaction with legislation leading to different content and opinions across multiple sectors. The IAASB may consider an appendix is therefore an approach that is easier to carve-out, carve-up, supplement or replace across jurisdictions.</li> <li>(c) There is a need for further guidance on reporting to that included within the ED-ISA for LCE, and the Reporting Supplemental Guide is well presented in that context. As with the Supplemental Guidance for the Authority, this can lead to duplication, but additional practical guidance is welcome.</li> </ul>
11	<p>With regard to the Reporting Supplemental Guide:</p> <ul style="list-style-type: none"> <li>(a) Is the support material helpful, and if not, why not?</li> <li>(b) Are there any other matters that should be included in relation to reporting?</li> </ul>
	<p><b>Response</b></p> <ul style="list-style-type: none"> <li>(a) Yes, per 10(c).</li> <li>(b) At a jurisdiction level, information and guidance on application of legislative requirements across sectors helps auditors to apply requirements with derivation other than auditing standards in a consistent way. The Reporting Supplemental Guide would benefit from referencing the link between legislation and ED-ISA for LCE in the context of reporting.</li> </ul>
12	<p>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.</p>
	<p><b>Response</b></p>

	<p>The IAASB should continue efforts to work on the clarity and simplification of language throughout the ED-ISA for LCE. Specifically, there are also several areas that act to complicate the standard and their omission or simplification could be of benefit.</p> <p>For example, Part 6 of the ED-ISA for LCE would benefit from some further work to ensure the underlying requirements (not just the, generally very good, EEM) highlight the additional simplicity that stems from the qualitative features of a LCE. The standard also uses presumptive language in connection with processes that EEM acknowledge can be very informal, or unnecessary, in a less complex entity in areas including:</p> <ul style="list-style-type: none"> <li>○ 6.3.2 talks of governance oversight of management’s processes for identifying and responding to the risks of fraud and error and the controls that management has established</li> <li>○ 6.3.6 to 6.3.17 in connection with understanding the entity’s internal control system would benefit from additional distillation to reflect the qualitative characteristics acknowledged in the EEM</li> <li>○ 6.5.8 in connection with control risk assessment, and associated EEM, distils ISA 315, though does not translate it to apply to an LCE. This has the effect of potentially further entrenching substantive approached in areas where control testing can still be the right answer in certain circumstances.</li> </ul> <p>Whilst principles-based in most respects, the ED-ISA for LCE in some areas reads as a list of rules and requirements. This is prevalent in areas related to communication, for example in 6.6 and 6.7. Whilst these requirements are a manifestation of extant ISA requirements, consideration should be given to whether they could be addressed in another way, or omitted from the main body of the standard in some cases to the benefit of keeping the standard as principles based as possible.</p>
<p><b>Section 4F – Other Matters</b></p>	
<p>13</p>	<p>Please provide your views on transitioning:</p> <ul style="list-style-type: none"> <li>(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?</li> <li>(b) What support materials would assist in addressing these challenges?</li> </ul>
	<p><b>Response</b></p> <ul style="list-style-type: none"> <li>(a) The drafting principles used, alongside the ISA mapping, facilitate the move from ED-ISA for LCE to the ISAs as the performance of a gap analysis is achievable as principles and workflows are, in essence, very similar. The negative aspect of this is that there could be a perception that where a firm’s methodology already distils extant ISAs into its approach (or this is procured from a third party), there won’t be much tangible benefit in adoption of ED-ISA for LCE. For reasons outlined in our response with reference to the link to regulation and monitoring in question 3(b), we believe that firm’s and methodology providers ought still to be able to support a step-change in approach that would offer a more proportionate, and high-quality audit of an LCE. On balance, therefore, we feel that the format of the standard offers an appropriate compromise.</li> <li>(b) Support materials that explicitly cover transition and differences between ED-ISA for LCE and ISAs may allay concerns of users of ED-ISA for LCE in this area. Consideration should also be given as to whether there are any viable gaps that could be addressed through reported transition exemptions within the ISAs – similar to those seen on change of financial reporting frameworks in a financial reporting sense – for example, where opening balances (or comparatives) were audited under the LCE framework in the first year of adoption of ISAs.</li> </ul>
<p>14</p>	<p>Do you agree with the proposed approach to the future updates and maintenance of the Standard and related supplemental guidance?</p>
	<p><b>Response</b></p>



	We agree with the approach outlined, that amendments to ED-ISA for LCE will be made periodically when projects to revise ISAs are undertaken with explicit consideration of when the changes to ED-ISA for LCE as part of each ISA project.
15	For any subsequent revisions to the standard once effective, should early adoption be allowed? If not, why not?
	<p><b>Response</b></p> <p>Yes, to mirror ISAs and permit consistent roll-out across multiple tiers of complexity on a jurisdictional or firm-wide basis.</p>
16	Should a separate Part on the ISA-800 series be included within ED-ISA for LCE? Please provide reasons for your response.
	<p><b>Response</b></p> <p>No further comments provided.</p>
17	<p>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:</p> <p>(a) Whether the proposed standard can, and will, be used in your jurisdiction.</p> <p>(b) Whether the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.</p> <p>(c) Whether there are aspects of the proposed standard that may create challenges for implementation (if so, how such challenges may be addressed).</p>
	<p><b>Response</b></p> <p>(a) We hope that the FRC provide the UK audit market and LCE stakeholders the opportunity to provide feedback on this question. We consider that this ED, with some drafting amendments, could be used effectively and would be of benefit to audit quality on LCE engagements in many jurisdictions, including the UK.</p> <p>(b) Subject to comments elsewhere in this response, yes.</p> <p>(c) Transition is noted elsewhere, though ought to be rare. ISA group auditor practical considerations may also provide challenge. Most areas can be addressed through sensible and proportionate application material, either in the ISAs or ED-ISA for LCE. As mentioned in our response to question 13(a) there may be challenge over perception of benefit where the opportunities presented by this standard are not fully considered, or immediately transparent. The most significant implementation challenge may be inertia, either at the jurisdiction or firm-level.</p>
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?
	<p><b>Response</b></p> <p>No further comments provided.</p>
<b>Section 4G - Approach to Consultation and Finalization</b>	
19	What support and guidance would be useful when implementing the proposed standard?
	<p><b>Response</b></p>

	<p>The direction of travel is positive regarding the development of Supplemental Guidance alongside the ED-ISA for LCE and we commend the IAASB for its approach to drafting practical guidance alongside development of this standard.</p> <p>LCEs in the UK are often audited by auditors that provide audit services as only part of their day-to-day role for a portfolio of clients that can be principally non-complex. This “part-time auditor” consideration is relevant insofar as it heightens the importance of providing clear requirements and practical guidance that is easily digestible. Guidance produced should be drafted with these individuals in mind as they have significant experience of dealing with LCEs and an inability for them to make an appropriate and proportionate return on their investment in quality will harm choice and competition in this stratum of the audit market in the longer term.</p> <p>Linked to the response provided in 3(b), but relevant to additional guidance that would be useful, in the UK we used to have guidance on smaller entity audit documentation in the form of a Practice Note (Practice Note 26 – Guidance on Smaller Entity Documentation). UK methodology providers used this guidance as a point of reference and its very existence helped provide credibility to the creation of less complex entity solutions (for example the Mercia freeform planning approach). When the FRC withdrew this Practice Note in 2018 without formal consultation, citing that it no longer supported the documentation requirements of a high-quality audit, this acted to stifle methodology provider and firm-level innovation and investment in less complex entity approaches as the way it had been withdrawn, to some extent, undermined their previous investment and solutions.</p> <p>We consider that ED-ISA for LCE, as noted elsewhere in this response, can provide a catalyst for investment in the LCE audit approach and a foundation for solutions to build upon in our jurisdiction and others like it. Indeed, the ED-ISA for LCE EEM carries several similar useful principles to those seen and used effectively by firms and methodology providers in the Practice Note referenced.</p> <p>To draw prominence to the EEM and help clarify documentation expectations, separate supplemental guidance or practical examples should also be published, for example as seen in the IFAC Guide to Review Engagements and Guide to Using ISAs in the Audits of Small and Medium-Sized Entities.</p>
20	<p>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.</p>
	<p><b>Response</b></p> <p>No response provided.</p>
21	<p>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.</p>
	<p><b>Response</b></p> <p>We agree that this provides a sufficient period to support effective implementation.</p>
<p><b>Section 5 – Group Audits</b></p>	
22	<p>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.</p>
	<p><b>Response</b></p> <p>In the UK, preparation of group accounts is not a proxy for a group, or its components, being complex. Whilst this may not be the case in other jurisdictions, our experience is that it would be</p>

	<p>appropriate to include group audits within the scope of ED-ISA for LCE. We therefore consider that the audit of groups being scoped out at the ED-ISA for LCE Specific Prohibitions Level is inappropriate and recommend that this should be left to Jurisdictional Level Limitations based on local factors.</p>
23	<p>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:</p> <ul style="list-style-type: none"> <li>(a) Would you use the standard if group audits are excluded? If not, why not?</li> <li>(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?</li> <li>(c) What common examples of group structures and circumstances within your practice would be considered a less complex group.</li> </ul>
	<p><b>Response</b></p> <ul style="list-style-type: none"> <li>(a) If we had the opportunity in the UK to use ED-ISA for LCE, but group audits were excluded from its scope, we believe it would still be in the best interests of the stakeholders of those entities to adopt the proposed standard. It would be easier to make the commercial case for adoption as a matter of firm-wide policy, however, if group audits were included within its scope.</li> <li>(b) As a broad approximation we expect that in excess of 25% of the group audits we undertake would likely be able to be able to use the ED-ISA for LCE.</li> <li>(c) It is not uncommon in the UK to audit groups with simple holding company and trading company operations, entities structured as a group for tax or liability limitation reasons but with non-complex features. We act for many not-for-profit entities with trading subsidiaries, again, often structured in such a manner for tax reasons.</li> </ul>
24	<p>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):</p> <ul style="list-style-type: none"> <li>(a) The IAASB establishes a proxy(ies) for complexity for when the proposed standard may be used (“Option 1 - see paragraph 169); or</li> <li>(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.</li> </ul>
	<p><b>Response</b></p> <p>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.</p> <p>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.</p>
25	<p>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?</p>

	<p><b>Response</b></p> <p>Headline qualitative characteristics of a group, or an entity that is part of a group, or a standalone entity that is not complex do not really differ. The standard could include some limited essential explanatory material to highlight examples relevant to groups without the need for setting out explicit prohibitions or qualitative characteristics that are group specific within its</p>
26	<p>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):</p> <ul style="list-style-type: none"> <li>(a) Presenting all requirements pertaining to group audits in a separate Part; or</li> <li>(b) Presenting the requirements pertaining to group audits within each relevant Part.</li> </ul>
	<p><b>Response</b></p> <p>In our view, the understandability of the standard should not be compromised by the inclusion of group requirements within the body of a main text of a static document that is written principally for application in an individual entity scenario.</p> <p>Many auditors apply an audit methodology based on the relevant framework that can be dynamic based on the qualities of the audited entity so the practical, day-to-day, implications of having requirements in a separate part are minimal when weighed against the benefit of clarity for most users of the standard itself. This would not be so important a question if the presentation of auditing standards was dynamic at source.</p>