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International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 5th Avenue, 6th Floor  
New York, NY 10017, USA

***Comments on the Exposure Draft, Proposed International Standard  
on Auditing for Audits of Financial Statements of Less Complex  
Entities***

The Japanese Institute of Certified Public Accountants (JICPA) is grateful for the opportunity to comment on the Exposure Draft, *Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities* (ED-ISA for LCE).

The attached are our comments on “Request for Comments.”

We hope that our views will be of assistance to the IAASB.

Sincerely yours,

Sayaka Shimura  
Executive Board Member - Auditing Standards  
The Japanese Institute of Certified Public Accountants

## General Comments on Proposed ISA for LCE

### Response:

The main points of our comments are as follows.

**(1) An audit should not be excluded from the scope of the ISA for LCE solely because it is a group audit.**

The IAASB approved ISA 600 (Revised) “Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)” at the December 2021 board meeting. The following comments are based on the revised ISA 600.

Even if an audit is determined as an audit of group financial statements (a group audit) under ISA 600 (Revised), in fact there are many cases in which the audit could be determined as an audit of less complex entity. Therefore, we have a concern that if the use of ISA for LCE is uniformly prohibited for all audits that are considered to be a group audit, the scope of the ISA for LCE will be significantly narrowed, leading to an unreasonable result where the ISA for LCE cannot be applied even to the audit of a less complex entity (see Questions 22 to 26).

**(2) Practical differences between International Standards on Auditing (ISAs) and ISA for LCE should be clarified.**

We believe that the practical differences between International Standards on Auditing (ISAs) and ISA for LCE should be clarified. The differences between the two are not clear from the Explanatory Memorandum and Mapping Documents in the ED-ISA for LCE. In particular, it is necessary to indicate whether there are any differences in audit procedures and/or documentation between applying the ISA for LCE and the ISAs for the same less complex entity, assuming that both audits provide the same level of assurance. Also if there are any differences, the differences need to be clearly explained. The practical implications of applying the ISA for LCE for less complex entities should be clarified to ensure that stakeholders do not have different expectations for the standard (see Question 1 and Question 13).

## Specific Questions

### *Section 4A – Overarching Positioning of ED-ISA for LCE*

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?

### Response:

As a general comment on ED-ISA for LCE, we believe that the practical differences between International Standards on Auditing (ISAs) and ISA for LCE should be clarified. The differences between the two are not clear from the Explanatory Memorandum and Mapping Documents. In particular, it is necessary to indicate whether there are any differences in audit procedures and/or documentation between applying the ISA for LCE and the ISAs for the same less complex entity, assuming that both audits provide the same level of assurance. Also if there are any differences, the

differences need to be clearly explained. The practical implications of applying the ISA for LCE for less complex entities should be clarified to ensure that stakeholders do not have different expectations for it.

(b) The title of the proposed standard.

**Response:**

We agree.

(c) Any other matters related to ED-ISA for LCE as discussed in this section (Section 4A).

**Response:**

- Statement in the auditor's report

If the ISA for LCE is to be a standalone standard separate from the ISAs, we agree with the proposal to state in the auditor's report that the auditor conducted their audit in accordance with the ISA for LCE to clarify which standard has been complied with. However, we are concerned that the statement may lead users of the auditor's report to misunderstand that the audit in compliance with the ISA for LCE does not provide the same level of reasonable assurance as those based on the ISAs. Therefore, it is necessary to make it widely known to stakeholders through seminars and the likes so that they understand that an audit in compliance with the ISA for LCE provides the same level of assurance as an audit in accordance with the ISAs.

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:**

We agree.

#### *Section 4B – Authority of the Standard*

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?

**Response:**

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

(b) Are there unintended consequences that could arise that the IAASB has not yet considered?

**Response:** —

(c) Are there specific areas within the Authority that are not clear?

Response:

- Paragraph 157 of the Explanatory Memorandum states that the group auditor will need to determine whether it is appropriate for the component auditor to use ED-ISA for LCE for the purposes of the group audit. This description is necessary for understanding the scope of ISA for LCE, and should be included in the guidance and other documents when the standard is finalized.
- With respect to the auditor's report on the group financial statements when the component auditor has performed procedures for group audit purposes in accordance with the ISA for LCE, we understand that paragraph 11 of extant ISA 600 requires that "(excerpt) the auditor's report on the group financial statements shall not refer to a component auditor" However, since ISA for LCE is a new separate standalone standard, it may cause misunderstanding. Therefore, we think it is necessary to clarify that it will not be explicitly stated in the auditor's report that the auditor has complied with the ISA for LCE for some of the group audit procedures, even when the component auditor has performed procedures for group audit in accordance with the ISA for LCE.

(d) Will the Authority, as set out, achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard?

Response: —

(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: —

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:

With respect to the organizational structure (second bullet point) and oversight structures (third bullet point) listed in paragraph A.9 of the ED-ISA for LCE as qualitative characteristics, the judgment of whether the structures of the audited entity fall under these characteristics is subjective if it is left to the discretion of each audit engagement team, and this may cause variability. Therefore, it would be preferable to leave it to legislative or regulatory authorities or relevant local bodies with standard-setting authority to specifically determine what organizational and oversight structures generally fall under these qualitative characteristics in their jurisdiction. In addition, although special-purpose

entities (SPEs) are cited as an example of complexity in organizational structure, we do not think it is necessary to explicitly state this because there are many cases where they are not complex.

5. Regarding the Authority Supplemental Guide:

(a) Is the guide helpful in understanding the Authority? If not, why not?

**Response:**

Yes, the guide is helpful in understanding the Authority.

(b) Are there other matters that should be included in the guide?

**Response:**

Although the guidance supplements the qualitative characteristics that would make the ISA for LCE inappropriate for use in the audit of certain types of entities, its current description of accounting estimates is insufficient, especially in terms of the degree of estimation uncertainty that would limit the use of ISA for LCE.

We also comment below on the table in Paragraph 28 of the proposed Supplemental Guidance for the Authority of the ISA for LCE.

- The first 'X' in Business Activities, Business Model or Industry

The description, "Products and services that may result in technological obsolescence, legal liability or reputational risk." needs further clarification so that readers can identify what specific products and services are being referred to.

- The second 'X' in Business Activities, Business Model or Industry

It lists "Entity operates in a new or emerging market or is in the start-up or development stage of its life cycle," as an example of characteristics commonly not associated with an LCE. However, an entity in the start-up stage is often small and not complex, thus it may be appropriate to apply the ISA for LCE to such entity. Moreover, if the business of the entity which is in the start-up was complex, it will not be appropriate to apply ISA for LCE based on A.8 and A.9. As such, the example of the start-up could be removed.

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:** —

#### *Section 4C – Key Principles Used in Developing ED-ISA for LCE*

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:

(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:**

We understand that the IAASB limits EEM only to where it is essential to understanding or applying a requirement to keep the standard concise and succinct, but it is advisable to reconsider whether the EEM is sufficient for auditors to properly perform procedures under the ISA for LCE. For example, for paragraph 4.6.4(c)(iii), “Performing specific audit procedures to obtain evidence regarding the opening balances.” it would be useful in practice to include application materials A3 and A7 of ISA 510 “Initial Audit Engagements – Opening Balances”.

*Section 4D – Overall Design and Structure of ED-ISA for LCE*

- 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:**

We support the proposal.

*Section 4E – Content of ED-ISA for LCE*

- 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:**

The ISA for LCE is designed to achieve the reasonable assurance same as the ISAs; however, some of its descriptions, which have been amended or deleted from the ISAs, may cause differences in the judgment or understanding of the auditor. Therefore, it is necessary to reconfirm that the descriptions in the ISA for LCE do not diverge from the intention of the ISAs. The following are some specific examples:

- (1) “7. Responding to Assessed Risks of Material Misstatement”

Paragraph 7.4.20 includes descriptions based on paragraph A12 of ISA 501, “Audit Evidence— Specific Considerations for Selected Items.” However, the following sentences are not included in this EEM: “The matter of general inconvenience to the auditor, however, is not sufficient to support a decision by the auditor that attendance is impracticable. Further, as explained in ISA 200 “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing” the matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive.” We are concerned that if the

description is omitted, it may be interpreted that the auditor can easily determine that attendance is impracticable. Even for audits of less complex entities, regardless of applying ISAs or ISA for LCE, we believe the attendance at physical inventory counting should not be easily avoided when inventory is material. As such, the description is necessary for the EEM.

(2) "8. Concluding"

- (i) Paragraph 8.3.1 is based on paragraph 35 of ISA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements." However, while the ISA addresses the risk of material misstatement due to fraud only, paragraph 8.3.1 includes misstatement due to errors, and therefore requires more than it is required in the ISA. It should be aligned with the ISA requirements.
- (ii) Paragraphs 16 and 17 of ISA 580 "Written Representations" requires that if the auditor has concerns about the competence or integrity etc. of management, the auditor shall determine the effect that such concerns may have on the reliability of representations. However, paragraph 8.6.5 of the ED-ISA for LCE does not contain such requirements. We believe the reliability of the representations should be considered if the auditor has concerns about the competence or integrity etc., even in the case of an audit of a less complex entity, and therefore the requirements need to be added to paragraph 8.6.5.

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: —

11. With regard to the Reporting Supplemental Guide:

- (a) Is the support material helpful, and if not, why not?

Response: —

- (b) Are there any other matters that should be included in relation to reporting?

Response: —

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: —

*Section 4F – Other Matters*

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?

**Response:**

The challenge may be that it is unclear under what circumstances to transition to the ISAs.

The degree of difficulty associated with the transition may vary depending on the extent to which audit procedures and documentation differ between applying the ISA for LCE and the ISAs. In this sense, it is important to clarify the practical differences between the ISAs and the ISA for LCE. Please refer to Question 1.

- (b) What support materials would assist in addressing these challenges?

**Response:**

In light of the above, it is preferred to develop guidance that clarifies under what circumstances the transition to the ISAs should take place and the steps or procedures for such transition.

As for the transition procedures, the guidance should clearly state matters such as whether the audit engagement needs to revise the acceptance and continuance or not, and whether the transition requires a change in documentation and the details of such change if required.

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

**Response:**

It is desirable that the ISA for LCE will be stably operated as a separate and standalone standard from ISAs. We therefore agree with the proposal to revise the standard periodically rather than revising it immediately when an ISA is revised.

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

**Response:**

Early adoption should be allowed.

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

**Response:**

We think that a separate Part on the ISA-800 series should be included within ISA for LCE.

The ISA-800 series is relevant to audit engagements, especially those for not-for-profit organizations (NPOs), in Japan. Therefore, they should be included within ISA for LCE. Financial statements of NPOs may be prepared in accordance with special purpose frameworks so that they can meet the



needs of specific users. Further, as many NPOs in Japan are determined as less complex entities, ISA for LCE could also be applied to such organizations.

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.

Response: —

(b) Whether the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.

Response: —

(c) Whether there are aspects of the proposed standard that may create challenges for implementation (if so, how such challenges may be addressed).

Response: —

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: —

#### *Section 4G - Approach to Consultation and Finalization*

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

Response: —

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: —

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:

We think that an effective date for ISA for LCE needs to be later than 18 months after the approval of the final standard. In addition to the IAASB's recognition that ISA for LCE is a new standard and the need for national due process and translation, it is necessary for stakeholders to deepen their understanding of the said standard for its proper application, and legislative or regulatory authorities or relevant local bodies with standard-setting authority will need to consider the jurisdiction level limitations as stated in the Part A "Authority of the ISA for Audits of Financial Statements of Less Complex Entities".

#### *Section 5 – Group Audits*

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:*

We think an audit should not be excluded from the scope of ISA for LCE solely because it is a group audit.

The IAASB approved ISA 600 (Revised) at the December 2021 board meeting. Based on the revised ISA 600, even if an audit is identified as a group audit, in fact it could be considered as an audit of a less complex entity in many cases. For example, it has been clarified that when a single entity's financial statements aggregate the financial information of branches or divisions through a consolidation process, it is subject to ISA 600 (Revised)—i.e., group audits. However, many of the audits of single entity's financial statements for entities that have branches could be considered as audits of less complex entities. Therefore, we are concerned that if the use of ISA for LCE is uniformly prohibited for all audits that are considered to be group audits, the scope of the ISA for LCE will be significantly narrowed, leading to an unreasonable result where the ISA for LCE cannot be applied even to audits of less complex entities. For more details, please refer to our comment on Question 23.

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

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

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

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

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

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

All of the above complexities are considered to be attributable to "the complexity of the entity itself" which is subject to group audit. Many of them are already covered in the description of the qualitative characteristics that would make the ISA for LCE inappropriate for use in paragraph A.9. Specifically,

- "(a) The complexity of the group's structure" means the same as "The organizational structure is not relatively straightforward or simple" in paragraph A.9.
- "(c) The structure and complexity of the group's IT environment and IT systems" means the same as "The entity's IT environment or IT systems are complex" in paragraph A.9.
- "(d) Relevant regulatory factors, including the regulatory environment" means the same as "The entity's operations are subject to a higher degree of regulation or to significant regulatory oversight, such as being subject to prudential regulations" in paragraph A.9.
- "(e) The ownership, and relationships between owners and other people or entities, including related parties, are complex" means the same as "Ownership or oversight structures are complex" in paragraph A.9.

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

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

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

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

We held discussions among practitioners on factors that lead to complexity in the group audit process. However, no important factor was identified other than whether or not component auditors are involved. When component auditors are involved, the group auditor will take a series of following additional processes: considering the procedures for the component auditors to perform; sending

instructions to the component auditors; obtaining reports on procedures performed by the component auditors; and evaluating the results of the audits. We are concerned that if the ISA for LCE is used for a group audit involving component auditors, the scope of the standard may also include complex audits. We are also concerned that, as concerned in paragraph 180 of the Explanatory Memorandum, it adds substantial length to the ISA for LCE as requirements pertaining to such procedures would need to be clarified.

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

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?

**Response:**

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

(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?

**Response:**

It is difficult to quantify the percentage of group audits that would likely be able to use the proposed standard if group audits were not excluded from the scope of ISA for LCE. However, given “the qualitative characteristics that if exhibited by an entity preclude the use of the ISA for LCE for the audit of the financial statements of that entity” described in paragraphs A.8 and A.9, the percentage of such group audits would be quite high, if the number of entities that are expected to be subject to the proposed standard is used as the denominator. Typical examples are entities listed in (a).

For example, there are educational institutions that only operate multiple kindergartens. Meanwhile, recently, more and more kindergartens have also been operated in conjunction with very small corporate-led nursery school. If an educational institute maintains accounting records of such a corporate-led nursery school separately, the entity may be subject to ISA 600 (Revised) even if a

small kindergarten only has one small corporate-led nursery school within a company located in its neighbourhood.

According to JICPA's data on audits of educational institutions for the fiscal year ended March 31, 2020, approximately 4,000 statutory audits were performed under "Act on Subsidies for Private Schools", and approximately 1,200 statutory audits were performed for "educational and childcare facilities that receive institutional benefits". Many of such entities have no qualitative characteristics that would make the ISA for LCE inappropriate for use described in paragraphs A.8 and A.9, but many of them have multiple divisions or business sites. Therefore, they are expected to be subject to ISA 600 (Revised), and the application of the ISA for LCE is thus expected to be prohibited only because they are subject to ISA 600 (Revised). If group audits subject to ISA 600 (Revised) are not excluded from the scope of the ISA for LCE, the proposed standard is expected to be applicable to many audit engagements in such group audits.

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

**Response:**

If an entity exhibits no characteristics described in paragraphs A.8 and A.9 and the group audit of such an entity involves no component auditor, the entity can be considered to be a less complex group. A specific example is a case where a private accounting firm performs an audit of an educational institution that operates multiple kindergartens in the community. As described in (b) above, many audits of educational institutions could be subject to ISA 600 (Revised). However, it is extremely rare that component auditors are involved in such audits because the auditor of an educational institution (i.e., the group auditor) performs all audit work in majority cases. Specifically, only 0.05% of statutory audits performed under the "Act on Subsidies for Private Schools" (described in (b) above) involves component auditors.

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:**

We support Option 1.

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.

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:**

Please refer to our response to Question 24 above.

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:**

If group audits are included in ISA for LCE, all relevant requirements pertaining to group audits should be presented in a separate Part as proposed in (a) above. In this way, the structure of the proposed standard will be more comprehensible for both cases where ISA 600 (Revised) is applied and not applied.

### **Other Comments**

The illustrative engagement letter presented in Appendix 5 of ED-ISA for LCE, does not include a description of the responsibilities of management section. Such a description should be included in the template as is the case with Appendix 1 of ISA 210 “Agreeing the Terms of Audit Engagements.”