



# Proposed Part 10, Audits of Group Financial Statements of the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE) and Proposed Conforming Amendments

Issued 1 June 2023

ICAEW welcomes the opportunity to comment on the IAASB's *Proposed Part 10, Audits of Group Financial Statements of the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE) and Proposed Conforming Amendments* published by the IAASB on 24 January 2023, a copy of which is available from this [link](#).

For questions on this response, please contact the ICAEW Audit and Assurance Faculty at [tdaf@icaew.com](mailto:tdaf@icaew.com) quoting REP 52/23.

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## GENERAL POINTS

1. We welcome the opportunity to comment on the draft part 10 of IAASB's ISA for LCE. Respondents to IAASB's 2022 ED were clear that for the standard to have value, and for it to be sufficiently widely scoped to make the investment in its adoption and implementation worthwhile for practitioners, it would, as a minimum, need to scope in group audits.
2. Many, perhaps most groups of entities are not complex, and nor are their audits. To suggest otherwise is disingenuous and we are therefore pleased that IAASB has proposed these revisions. While the proposals will catch many group audits, we believe the proposed scope is still unnecessarily narrow, and excludes many other less complex groups. Catching some, but not others within a group perceived as essentially the same, will disincentivise adoption of the standard by both standard-setters and practitioners.
3. We would have liked to have seen these revisions in context because these proposals, combined with the other potentially substantial revisions arising from the exposure process, have the potential to make the final standard different to the one originally proposed. We understand that this would have delayed the finalisation of the standard and the need to expedite finalisation on a timely basis. But we also note an evident lack of appetite for re-exposure of any standard in recent years, regardless of the extent of changes made to EDs, and we urge IAASB to exercise caution when taking this approach, to avoid any loss of credibility in its standards and the standard-setting process.
4. We support the IAASB's outreach to audit regulators on the ISA for LCE. Some regulators see no need for it, believing that the ISAs as they stand are proportionate and scalable. We urge IAASB to continue to engage with audit regulators on this issue, and to emphasise the importance of this standard to the maintenance of a healthy non-PIE audit market, especially in developed economies where audit exemption levels have risen exponentially in recent years.
5. We are all in uncharted waters with this standard and its finalisation marks the start of an adoption and implementation journey. The journey will require all stakeholders – standard-setters, audit regulators, PAOs and NSS – to work together to ensure that the value of the work performed by IAASB on this standard is not lost. Furthermore, we fully expect the standard to change over time as stakeholders gain experience in adoption and implementation. This section of the standard is one area in which a review of scope with a view to extending it to a wider range of group audits might be considered at an early stage, not least to avoid a perverse disincentive to audit quality that might arise if group auditors decide to do the work on components themselves, possibly remotely, rather than using a capable local auditor.
6. IAASB does not normally expose the Basis for Conclusions or other documentation accompanying new standards. However, this standard is different to all others and IAASB should therefore consider providing a clear indication of the size criteria it is intending to suggest for NSS and regulatory bodies, and the wording it is intending to use to encourage adoption.
7. IAASB should also consider, prior to finalisation, what good looks like in terms of the extent of adoption over time and commit to monitoring this and considering what more needs to be done if adoption is not widespread. It should include a separate question regarding adoption of this standard when considering compliance with its Statement of Member Obligations (SMOs).
8. In practice, where adoption is permitted by audit regulators, the extent of adoption will depend on the extent to which auditors are permitted to use experience of auditing under this standard in their training to qualify as auditors. It will also depend on whether software platforms accommodate the standard. We urge IAASB to consider further engagement with software providers globally as they will only make the investment if they are convinced that there will be demand for it, and demand will only be apparent if the software providers make the investment. We also urge IAASB in its engagement with audit regulators to emphasise

the need to acknowledge differentiation between the ISAs and this standard, not in terms of rigour or the quality of documentation, but in the nature and extent of work to be performed. If they do not do so, and practitioners thereby learn that there is no difference between the application of this standard and the ISAs, they will not use the standard.

9. The proposed prohibition on the use of the standard except where a physical presence is required, and the qualitative characteristics of non-complex groups as set out in the proposals would, when combined, unnecessarily exclude some very simple groups, because of the restrictive nature of the examples. We suggest that the scope can be widened without compromising audit quality as set out in our answers to questions 1 and 2 below.

## ANSWERS TO SPECIFIC QUESTIONS

**Question 1: In the Authority, do you agree with the proposed prohibition on the use of the proposed ISA for LCE for group audits where component auditors are involved, other than in limited circumstances where physical presence is required?**

10. The proposed prohibition would unnecessarily exclude some very simple groups. If standard-setters and practitioners are to adopt this standard, and software and methodology providers are to invest the necessary resource in updating systems, it is important to avoid a situation in which some less complex groups can be audited under this standard, whereas others that are essentially the same must be audited under the ISAs. We suggest that the scope of the standard is extended as follows:

- A.1 d (ii) permits the use of the standard when the component auditor's involvement is limited to circumstances in which a physical presence is needed for a specific audit procedure for the group audit (e.g., attending a physical inventory count or inspecting physical assets).
- We understand the care taken over this wording however, we do not agree that attending physical inventory counts and inspecting assets are the only circumstances in which the use of the standard would be justified. As a minimum, the need to (a) inspect documents where there is no alternative and (b) carry out specific audit procedures not amounting to a full-scope audit, should be added to this list. The non-exclusive nature of the examples given should be emphasised.
- We understand fears about misuse of the standard if the qualifying examples were removed altogether, if it were left entirely to auditors to determine when a physical presence is needed. However, as noted above, IAASB should consider including in the EEM examples of activities that would take the involvement of component auditors out of scope, such as a full audit of a component [or an audit of a significant proportion thereof?] We do not believe that this would result in the misuse of the standard. [Any other examples]

**Question 2: In the Authority, do you agree with the proposed group-specific qualitative characteristics to describe the scope of group audits for which the proposed ISA for LCE is designed to be used?**

11. We agree with the proposed group-specific qualitative characteristics except as follows.

12. The examples provided in A.3 *Additional Characteristics Relevant for Group Audits* include groups with, '...few entities or business units (e.g., 5 or less)', and where '...group entities or business units are limited to few jurisdictions (e.g., 3 or less)'. We understand that these are 'examples within examples', but practitioners in jurisdictions in which this standard is adopted will be forced in practice to rebut an assumption among audit regulators that more than 5 entities/business units, or more than 3 jurisdictions, are conclusive evidence of complexity.

13. It would be helpful to add that less complex groups whose business operations display a high level of homogeneity may operate in more than 3 jurisdiction or have more than 5 business units. An example could be provided of groups of small hotels within one jurisdiction, or a parts distributor in one geographical region.

14. The examples provided in A.3 also state that financial information across the group must be prepared using the same accounting policies. It would be very helpful to provide an example involving a small not-for-profit group, such as a museum with a small trading subsidiary, where the two entities are subject to different GAAP reporting requirements, as dictated by legislation, but using the same accounting policies. Qualitative characteristics such as these should not necessarily preclude the use of the standard.

***Question 3: Do you agree with the content of proposed Part 10 and related conforming amendments?***

15. We note that changes to the audit report in the conforming amendments are achieved by means of footnotes. Footnotes are easily lost and we suggest that the content thereof is either included in the body of the report, or that it is excluded altogether, as it is unnecessarily repetitive.
16. IAASB should consider including additional guidance, similar to the guidance in paragraph 48 of the supplementary guidance exposed, to the effect that if it is found that the standard is inappropriate at the continuance phase or during the audit, because the group has become complex, the audit will need to be transitioned to the ISAs.