

OPTIONAL RESPONSE TEMPLATE: PROPOSED ISA FOR LCE

Guide for Respondents

- The International Auditing and Assurance Standards Board (IAASB) has published this separate Microsoft Word document for respondents to use for submitting their comments, if they wish. The questions below are from the exposure draft of proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities Management (ED-ISA for LCE), which is available at www.iaasb.org/publications/exposure-draft-proposed-international-standard-auditing-financial-statements-less-complex-entities.
- Respondents are asked to comment on the clarity, understandability and practicality of application of ED-ISA for LCE. In this regard, comments will be most helpful if specific aspects of ED-ISA for LCE are identified and the reasons for any concerns along with suggestions for improvement, are included. Specific suggestions for any proposed changes to wording in ED-ISA for LCE are also welcome.
- **Respondents are free to address only questions relevant to them, or all questions.** When a respondent agrees with the proposals in ED-ISA for LCE, it will be helpful for the IAASB to be made aware of this view as support for the IAASB’s proposals cannot always be inferred when not explicitly stated.
- We request that comment letters do not include tables as they are incompatible with the software we use to help analyze respondents’ comments.

Comments are requested by January 31, 2022

Name of Respondent: Chris Smith, Global Head of A&A

Organization (*where relevant*): BDO

Country/Region/Jurisdiction: Global

General Comments on Proposed ISA for LCE

Response: [Please include here comments of a general nature and matters not covered by the questions below.]

While we appreciate the IAASB's effort to provide a simpler standard for audits of less complex entities (LCEs), we generally believe that the proposed standard may not meet all stakeholders' requirements for such a standard, and fear that it will not stop the fragmentation of jurisdictional standards for LCEs. In many jurisdictions, there is a need for an audit and resultant report at an appropriate level of assurance that requires less work to execute and document. As most ISA requirements are still included in the proposed LCE standard, it provides little of the desired relief in the work effort or documentation that auditors of LCEs are seeking. We believe that it is preferable for the IAASB to develop a new LCE audit standard, with reduced work effort and resultant assurance, globally, thereby avoiding the situation of many jurisdictions defining their own local LCE standards with different areas of work effort and documentation relief. The extent of work effort and documentation relief provided in a different global LCE standard would influence whether the resulting assurance provided by such an engagement would be reasonable assurance or a new level of assurance that is less than reasonable assurance.

The feedback we received from our various firms indicated that if auditors need to refer to the ISA for LCE in the auditor's report, there should be substantive differences between the LCE requirements and the full suite of ISA requirements, while acknowledging that such LCE audits may provide something less than reasonable assurance depending on the significance of the reduced requirements for LCEs. For example, reduced work effort or documentation around risk assessment procedures, in particular related to obtaining an understanding of internal controls, may be an area where differentiation from the ISAs could be justified as it applies to LCEs.

While this standalone LCE standard is more user-friendly for practitioners, it is not in fact a *new* standard, and while it summarizes the requirements of the ISAs, it does not change them. Rather, it draws out the minimum requirements within the ISAs which would usually apply to a less complex entity. This may be helpful as non-authoritative implementation guidance but it does not actually change anything in terms of performing an LCE audit. As it does not change the work effort, nor the work which is, in practice, required under current ISAs, nor the level of assurance provided, it is not clear what the benefit of this is as a standalone standard.

In addition, there is a risk that the proposed LCE standard will increase the expectation gap. Users may not understand how ISA for LCE differs from the full suite of ISAs and may perceive that ISA for LCE provides them with a 'lesser' level of assurance than ISAs, even though under its current format, it does not.

There is another expectation gap that may increase. In the absence of clarity about how an audit performed under ISA for LCE would be different than an audit performed under the full suite of ISAs, practitioners may perceive that the significantly shorter ISA for LCE is a 'lesser' standard than ISAs, even though it is not. This may lead to less work effort and less documentation, resulting in deficient audits under the proposed LCE standard because the ISA for LCE requirements are the same as the ISA requirements.

We acknowledge that our suggestion above to reduce the work effort and documentation for LCE audits has a different objective than that set by the IAASB for this project, which was to still provide a reasonable assurance opinion. If the IAASB does not plan to revise the objective of this project to consider less work effort, less documentation and perhaps a lower level of assurance for LCE audits, then we suggest that changes would need to be made to the following areas of the proposed LCE standard to make the standard capable of broad usage:

- Scoping out the portions of the Estimates ISA addressing high estimation uncertainty – as explained in detail below, it is not practical to exclude entities from the entire LCE standard simply because they have an estimate with high estimation uncertainty. Particularly if such an estimate arises during the audit, thereby requiring the need to transition to the full suite of ISAs partway through the audit, we fear that such a situation would lead to inappropriate justifications to stay within the LCE standard. Hence we believe that it is necessary to include the audit response to high estimation uncertainty in the proposed LCE standard;
- Prohibiting reference to the full or a portion of the full ISAs when performing an LCE audit – we do not feel it is possible for auditors performing an LCE audit to completely ignore knowledge of the full suite of ISAs, and it does not make sense to prohibit going above the minimum LCE requirements when the auditor determines that to be appropriate; and
- Scoping out all group audits – we believe that some simple group audits should be able to use the LCE standard.

With respect to listed entities, it is possible that some of them may meet the qualitative definition of less complex. However, we concur that audits of listed entities should be prohibited from using the LCE standard as it would be in the public interest and it is unlikely that their regulators would accept an LCE audit report.

In conclusion, we believe that a single global LCE standard with reduced performance and documentation requirements (and potentially a lesser level of assurance if reductions in work effort are significant) would be preferable to moving forward with the currently proposed LCE standard. We fear that a number of BDO firms perceive no benefit in pursuing this LCE standard in its current form, and that they will support initiatives by local standard setters to develop local standards for LCE audits, notwithstanding that at a network level, we advocate a global solution.

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: We generally support a simplified approach being presented in a standalone standard as it facilitates clear differentiation between the full suite of ISAs and the ISA for LCE for the benefit of practitioners and stakeholders. In fact, it would conceptually make its use more practical: a user having to access one document which is about 100 pages long, rather than individual ISAs, totalling thousands of pages, is intuitively a good thing.

However, the standalone nature of the standard presumes that the audit opinion must refer to an audit performed under 'ISA for LCE'. Some BDO firms believe that referring to 'ISA for LCE' in the auditor's report is likely to add confusion and increase the expectation gap for users, as well as lead to a perception of a sub-standard audit having been delivered, notwithstanding that an audit under the currently proposed ISA for LCE will have achieved reasonable assurance. If the aim is to provide the same level of assurance, we do not think it is necessary to differentiate the standard used in the auditor's report (i.e., it should just refer to ISAs rather than ISA for LCE). If the IAASB does change the proposed LCE standard further such that an LCE audit has significantly reduced requirements and provides a lower level of assurance, then we fully agree that the auditor's report should refer to

ISA for LCEs. Similarly, if the IAASB has a plan that ISA for LCE will continue to diverge from the full suite of ISAs as the ISAs are modified going forward, then we believe that the report should refer to ISA for LCE.

In addition, the fact that the relevant ISAs cannot be used as a top-up when a circumstance arises that was not contemplated in the design of the proposed LCE standard is another obstacle to implementing the proposed LCE standard. This may be a deterrent for teams to use the proposed LCE standard, especially on first-time engagements, as switching to the full suite of ISAs later could lead to significant time and cost pressures.

(b) The title of the proposed standard.

Response: We agree with the title for the proposed standard.

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

Response: We understand that for engagement teams using the LCE standard, they should not be able to refer to the full ISAs to handle situations that are totally excluded from the scope of LCE standard (for example, using the work of internal auditors), as such excluded standards would generally not be relevant to less complex entities.

However, in paragraphs 26 and 27 in section 4A, we do not agree with the principle that relevant ISA requirements cannot be used to 'top-up' the ISA for LCE, particularly related to estimates with high estimation uncertainty. If the scope of the LCE standard is revised to include estimates with high estimation uncertainty, then this concern is greatly diminished.

We also believe that the standard itself does not clearly communicate the principle in paragraph 26 in section 4A. In fact, paragraph A.9 seems to contradict it as it states that an entity exhibiting one of the qualitative characteristics in paragraph A.9 is not necessarily excluded from using ISA for LCE. By inference, an entity having an estimate with high estimation uncertainty may still be able to use ISA for LCE and therefore would need to refer to the full ISAs for guidance on how to audit that estimate. We believe that the proposed standard should more clearly state that auditors should not use the ISA for LCE standard if circumstances exist requiring the use of ISAs that have been completely excluded from the LCE standard (assuming that the scope of the proposed standard is revised to include estimates).

In addition, it should be clear in the proposed standard that auditors may look to the full suite of ISAs for additional guidance when they consider it appropriate, but that this is not mandatory for complying with the requirements in the LCE standard.

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 with the proposed conforming amendments to the IAASB Preface.

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 certain prohibitions, a number of qualitative considerations, and the definition of complexity, together with the caveat in the Explanatory Memorandum which says that 'if in doubt, the standard is not appropriate', will make the LCE standard difficult to implement. Specifically:

- The specific prohibition on all group audits is likely to capture some entities which are *simple* in every respect except for the fact that it is a group audit. We believe that an outright prohibition on all group audits should be removed. Our response below in question 22 lists some examples of groups that are not complex.
- The prohibition on post-employment benefits will be difficult to implement consistently in the absence of a definition of 'post-employment benefits'. Specifically, would post-employment benefits include defined contribution benefit plans which are considerably less complex than defined benefit plans?
- The inclusion of estimates with high estimation uncertainty in the qualitative characteristics that preclude use of the LCE standard causes significant concern. Even very simple entities will have estimates under most applicable financial reporting frameworks, and many of those estimates will have high estimation uncertainty. We believe that such entities, assuming other qualitative characteristics are met, should be able to use the LCE standard. If such estimates are not removed from the qualitative characteristics, engagement teams may try to justify that there is not high estimation uncertainty simply to use the LCE standard. Alternatively, practitioners may decide that it is easier not to adopt the proposed LCE standard at all, perhaps adopting a local LCE standard instead, which does not help the IAASB achieve its objective of a global LCE standard.
- The requirement to transition to a 'full ISA' audit if there is a change in qualitative characteristics (i.e., primarily the discovery of an estimate with high estimation uncertainty) is a fatal flaw that will prevent adoption of the LCE standard. It is not practical to switch the auditing framework mid-way through the audit when the auditor could simply refer to ISA requirements and guidance needed to address the issue. Auditors should not be penalized for going above the minimum requirements of the LCE standard. From a public interest perspective, and mindful of the need to maintain audit quality, under any framework (accounting or auditing), auditors should be able to go beyond the minimum requirements and still report under the stated framework. As most auditors will likely also do some 'full ISA' audits, they will have knowledge of those standards that they cannot 'turn off' when doing an LCE audit. It will be very difficult to stop those auditors from going beyond the LCE standard when performing LCE engagements. Going above the minimum requirements of the LCE standard should not be mentioned in the auditor's report via references to those ISAs.

In addition, paragraph A.5 refers to an entity embodying a level of complexity through appearance. We would challenge how an entity practically appears more complex without first understanding the entity and determining its specific risk profile. This approach could seemingly promote boilerplate thinking as generic risk assessment is assumed.

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

Response: Other than very specific exclusions, the new LCE standard contains the same requirements as an ISA audit and the documentation expectations are the same as well. Therefore, many auditors of LCEs do not believe that there is anything in this standard that would change what they are already doing. If they are required to refer to 'ISA for LCE' in the auditor's report, they expect a difference in work effort. Several BDO firms have stated that if the standard is approved in its current form, they expect that their jurisdiction will initiate a project to develop a local standard for LCEs that does provide relief in terms of work effort and/or documentation.

In addition, because the essential explanatory material (EEM) does not contain many portions of the application guidance that is available in the ISAs, auditors that use the proposed LCE standard probably need to be well-versed in the full suite of ISAs to be able to use the LCE standard effectively. To obtain this understanding of the requirements, LCE auditors may still need to take ISA training and/or refer to ISA application guidance to obtain an understanding of the requirements. As paragraph 26 states that the LCE standard is a standalone self-contained standard, we are not convinced that this objective has been met. That being said, we are not sure it is realistic, or necessary, for the LCE standard to be fully self-contained. In implementing any standard, practitioners may find it necessary to read additional guidance outside the standard.

Finally, the expectation for legislative or regulatory authorities or relevant local bodies with standard-setting authority to issue provisions and accompanying guidance for adoption and implementation of the LCE standard may not be welcomed by all jurisdictions. For those local bodies that do issue local requirements and guidance, there is a risk of inconsistent work effort and documentation across different jurisdictions, although it is beyond the mandate of the IAASB to resolve inconsistencies arising from local standards and regulations.

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

Response:

- If a non-listed entity is planning an Initial Public Offering within a certain number of years in the future (e.g., 2 years), it appears that the ISA for LCE could still be applied despite the potential public interest in historical financial results. We think that guidance should be added to the EEM regarding this situation, or perhaps it could be included as another example of public interest characteristics in paragraph A.7.(c).
- The proposed LCE standard may in principle be applied to public sector entities, but it is unclear how it would actually apply in practice. For example, many public sector entities are group audits, so if the group audits prohibition is retained, they would be excluded. In addition, although public sector entities are not listed in paragraph A.7.(c), the Authority paragraphs could be read to exclude public sector entities as they operate primarily for the benefit of the public interest. Moreover, many public sector entities would be considered to have complex IT which could also exclude them on the basis of qualitative characteristics. Some clarification around whether public sector entities are intended to qualify to use the LCE standard, and the conditions in which this would be happen, would therefore be appreciated.
- In paragraph A.7.(c), further clarification is requested regarding 'an entity one of whose main functions is to provide insurance to the public'. We assume this would not include insurance

brokers or other intermediaries, but it would be helpful if the LCE standard provided that clarification.

- The exclusion of group audits in paragraph A.7.(d) based on the elevated risk associated with these entities, rather than necessarily elevated complexity, means that it would effectively exclude a large number of less complex entities from its scope (e.g., junior exploration groups, group structures created solely for the purpose of tax structuring, and so on). We believe that simple group audits should be allowed to use the proposed LCE standard. Perhaps guidance for defining simple group audits could be included as EEM (e.g., no cross-border group audits, no reliance on component auditors as the group auditor audits all significant components, etc.).
- In relation to qualitative characteristics, defining the qualitative traits of *less complex entities* as being 'those that do not show complexity' (a paraphrase of paragraph A.9), does not assist with forming a professional judgment around whether an entity is in scope of the standard or not.
- Some people have interpreted paragraph A.9 very strictly; their understanding is that as soon as one qualitative characteristic exists, the LCE standard is inappropriate. Others have interpreted paragraph A.9 less stringently because of the last three sentences in paragraph A.9 which seem to allow professional judgment in determining if the qualitative characteristics preclude use of the LCE standard. For consistency of implementation in practice, this inconsistency in paragraph A.9 needs to be resolved.
- It is not clear from the Authority paragraphs that the auditor cannot look to ISA requirements to guide their work on situations not covered in the LCE standard. This is very clear in paragraphs 26, 27 and 137 of the Explanatory Memorandum, but it is not clear in the standard itself. That being said, we do not agree with prohibiting referring to the principles from the excluded portions of the ISAs for additional guidance when considered necessary (as per our response to question 3(a) above).
- If the IAASB retains the principle that the need to refer to *other ISA requirements* means auditors cannot use the LCE standard, it should be clarified in the proposed standard that it is acceptable for the auditor to consider referring to the ISAs *to help understand requirements that exist in the LCE standard*. The prohibition related to referring to the ISAs would then only apply if auditors sought guidance in the ISAs for requirements that the LCE standard excluded.
- Paragraph A.12 related to firms establishing policies on the permitted use of the ISA for LCE by the firm's engagement teams is not needed within the standard. Firms will do this even if this paragraph is not included in the standard.
- Paragraph 58 of the Explanatory Memorandum allows for specific sub-sets of engagements to be permitted. It is not clear how many of a specific class may be permitted. The ED states that an entire class may not be removed, but would that indicate that all but one would be ok? The ED does refer to paragraphs 18–20 of the Authority Supplemental Guide to provide guidance on when this might be appropriate, but as this is a supplemental guide, its authority could be challenged and therefore there may be potential for inconsistent application.

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

Response: In addition to the concerns described above relating to the Authority of the proposed LCE standard, the IAASB should consider adding another bullet in paragraph A.13 related to acceptance and continuance of client relationships and specific engagement considerations for the engagement partner. In addition to the bullets listed in A.13, the engagement partner should also consider the users of the financial statements and auditor's report; if certain users desire a 'full ISA' report, that needs to be considered before accepting the engagement under the proposed LCE 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: Yes, we believe it is clear and appropriate, as it allows those bodies to add further prohibitions or qualitative characteristics if considered necessary.

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: We do not agree with the following limitations relating to the use of the proposed LCE standard:

- **Specific prohibition: entities whose function is to provide post-employment benefits:** There are certain post-employment benefit plans that are very simple (e.g., self-managed superannuation funds, personal pension plans, defined contribution benefit plans, etc.) that would be scoped out of this standard. We would question whether all entities designed to provide post-employment benefits are inherently complex. A definition of post-employment benefit plans that are prohibited would help ensure consistency of application.
- **Specific prohibition: Group audits:** We believe that excluding all group audits from the LCE standard is not appropriate. There are certain group structures that are not complex, particularly where all members of the group are in one jurisdiction (e.g., a holding company with one operating subsidiary; a subsidiary that holds the assets used by the operating company; certain group structures that are created only for tax planning purposes where there is common management of all entities; groups where the group auditor audits all components all of which could be performed under the LCE standard, etc.). The definition of 'group financial statements' used in the ED is taken from ISA 600 (Revised), and so captures all financial statements that "include the financial information of more than one entity or business unit through a consolidation process", which means that any group structure is out of scope (unlike under the extant ISA 600, which defines group financial statements as those that include "the financial information of more

than one component” and which would therefore permit a situation in which multiple entities exist but operate as one *component* to not be treated as a group audit).

We accept that often, group structures indicate complexity for management and for the auditor. For groups with more than one operational location to consider, particularly where different component auditors will be used, and for cross-border components subject to different laws and regulations, we agree those situations are complex and the LCE standard should not be used. However, not all groups exhibit those characteristics and excluding all groups from using the LCE standard may well render the standard unusable in some jurisdictions.

- **Other specific prohibitions:** Except for the items specifically listed above, the rest of the specific prohibitions make sense.
- **Qualitative characteristics:** We are concerned with the lack of clarifying traits for what makes an entity ‘less complex’.
 - As drafted, the ‘qualitative characteristics’ paragraphs effectively state that *an entity is not a ‘less complex entity’ if it exhibits complexity.* (A.8) This does not help an auditor (or regulator) form a justifiable professional judgment about whether an entity was in scope of the standard or not. A.9 tries to go into more detail, but again defines a less complex entity by what it is not. For example, if an organisational structure is ‘not simple’, it is deemed ‘complex’.
 - Further clarification is needed on what constitutes ‘complex ownership’, ‘a complex transaction’, or ‘complex accounting’. From whose perspective is the complexity of the ownership, transaction or accounting assessed? If management routinely processes a particular type of transaction, it may not seem complex to them, whereas it would be to an entity that seldom processes such transactions. To an auditor who regularly audits share-based payments, encountering share-based payments during the audit is unlikely to appear ‘complex’; but to an audit firm who has not dealt with them before, it may well be complex. We appreciate that examples can be provided through implementation guidance, but the underlying principles should be well defined in the LCE standard.
 - With regards to paragraph A.9, an extract of the first bullet point reads: “... *such as when the entity operates in new or emerging markets, ...*”. We believe that clarity is needed on this sentence because it appears that auditors of entities operating in emerging markets are automatically scoped out of the ISA for LCE.
 - We debated whether the need for an auditor’s expert on the engagement should be a qualitative consideration when determining if an entity can use the LCE standard. However, if the IAASB agrees with our suggestion of allowing estimates with high estimation uncertainty in the proposed LCE standard, then we would need to allow the use of an auditor’s expert. Therefore, we would not want this added as an additional qualitative characteristic, assuming estimates are added to the scope of the proposed standard.

5. Regarding the Authority Supplemental Guide:

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

Response: Yes, the Authority Supplemental Guide is useful. However, since it is a non-authoritative guide, its use is limited in practice. Questions such as how regulators may interpret the supplemental

guidance in practice also arise: for example, in some jurisdictions, regulators tend to view examples as exhaustive lists rather than examples (even when standard setters do not intend them as such).

Making the Supplemental Guide part of the LCE standard itself would be preferable; though we acknowledge the IAASB's position that the standard should be as streamlined as possible. Perhaps, then, introducing it as an appendix to the standard, rather than a standalone separate document, would ensure that more users of the standard refer to it. We recognize that this may exacerbate the issue of regulators' expectations.

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

Response: We have no further suggestions for the guide, other than to incorporate some of the guidance we suggested previously on non-complex listed entities, non-complex groups, non-complex public sector entities, post-employment benefit plans and insurance providers.

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: We have no further suggestions.

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).

Response: Assuming the proposed LCE standard continues to contain all relevant ISA requirements and provide reasonable assurance (see our overall comments above), then we agree with how the ISA requirements have been incorporated into the proposed LCE standard. We agree with the basic structure, with replicating the ISA requirements, with the use of materiality and the audit risk model, etc. We think that the IAASB has done a good job of providing an overview of an LCE audit by listing the relevant requirements, only supplemented as necessary with EEM paragraphs. It is easy to read and should help LCE auditors with seeing 'the big picture'.

However, feedback from practitioners who regularly audit LCEs is that they expected an LCE standard which provided for lower work effort and fewer documentation requirements. This would require a different approach of building the proposed LCE standard from the ground up, based on requirements that make sense for LCEs. Therefore, as stated in our overall comments previously, we question whether the proposed standard meets the needs of practitioners. We also challenge whether it meets the needs of users of LCE financial statements (i.e., is there a public interest need to consider the nature of audit products (and levels of assurance) available to users within the market?).

(b) The approach to the objectives of each Part of the proposed standard (see paragraphs 78-80).

Response: We agree with the approach to the objectives in each Part of the proposed standard.

- (c) The principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management (see paragraphs 81-84).

Response: We concur with how professional skepticism, professional judgment, relevant ethical requirements and quality management principles have been incorporated into the proposed LCE standard.

- (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:

- i) The content that is currently included as EEM serves the purpose for which it was intended. However, it is not clear how this would work alongside implementation material. The latter would be welcome if the volume of EEM in the standard will be limited, but we are unsure why distinguishing between this and EEM is needed given that they have the same authority behind them – i.e., they do not create additional obligations. If the sole reason behind this is to not have an overly long standard, we would question whether it might not be more beneficial to instead revisit the decision to have a separate guidance section like the application materials in the ISAs. Whilst we acknowledge this might give a disconnected feeling, the decisions on what to include as EEM would largely be based on a model that has not been field tested (footnote 13 on page 13) and might not entirely be what users of the LCE standard might initially need. Having such a distinguishment would also be a first for a new auditing standard and might inadvertently create a confusing three-tiered structure, being: Standard requirements -> EEMs -> All other material.

In addition, many public sector entities are currently scoped out of the proposed LCE standard (e.g., via prohibition on group audits, etc.). If they remain scoped out in the final standard, we question whether it is necessary to include so much EEM on public sector entities.

- ii) We appreciate the process that the IAASB followed to determine what should be included as EEM and what should be excluded from the proposed LCE standard. We agree that it is much easier for a practitioner to see the 'big picture' when the proposed LCE standard is not full of additional guidance paragraphs.

However, we also received feedback from practitioners that the EEM may not be sufficient on its own, and that auditors will still need to take ISA training and perhaps refer to the Application and Other Explanatory Material in the ISAs to fully understand the intentions of the LCE requirements. Many auditors perform both 'full ISA' audits and LCE audits, so it is not an additional burden for them. But if there are auditors who only perform LCE audits, those practitioners, or more importantly, certain regulators, may expect them to supplement their understanding by taking full ISA training and/or referring to the full suite of ISAs when further guidance is needed. Perhaps the proposed LCE standard should make it clear that such actions are not considered mandatory, but obviously – in the public interest - are permitted if the practitioner wants to do so.

Regarding additional EEM material that should be considered:

- In section 5.3.1 on materiality, consider adding the examples of materiality benchmarks contained in ISA 320 paragraph A8 (5% of profit before tax from continuing operations and 1% of total revenue or total expenses) as these benchmarks establish a generally accepted starting point for determining materiality, before other qualitative factors are incorporated. We find that practitioners appreciate these quantitative guidelines which help to ensure at least a base level of consistency across firms.
 - Under section 8.9.3, the proposed standard states *“The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor’s report.”* – The use of “timely basis” is open to interpretation and could create a scenario where regulators globally can challenge this inconsistency. We would recommend the IAASB considers whether to include EEM in relation to expected days, similar to the application material in ISA 230, paragraph A21.
 - Under section 6.3.18, the proposed standard states *“The auditor shall determine whether deficiencies identified in the entity’s internal control system, individually or in combination, constitute significant deficiencies.”* – It may perhaps be useful to expand on how the assessment of significant deficiency relies on auditor judgment and that a collection of less significant deficiencies may result in a significant deficiency as under the ISAs (i.e., ISA 315, paragraph A183).
- iii) The responses from practitioners across a number of our BDO firms were split between whether the EEM should be integrated with the related requirements or whether it would be more useful segregated in each section from the related requirements (like the Application and Other Explanatory Material is presented in the ISAs). However, on balance, we believe that presenting the EEM with the related requirements is more useful, particularly since there are not a lot of EEM paragraphs.

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 have no issues with the revised presentation and order of the requirements identified, which mirrors the usual flow of an audit. We find the introductory boxes to each part helpful to focus the auditor’s attention, and the continued use of objectives and requirements will make the application of each section understandable.

We also appreciate that the IAASB has segregated specific communication requirements and specific documentation requirements in each Part, as that will be very useful to practitioners.

We believe that the drafting principles in paragraph 98 are appropriate guidelines for drafting the proposed LCE standard.

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: Notwithstanding our belief that the proposed LCE standard does not meet the needs of stakeholders, given the IAASB's objective of providing reasonable assurance, we feel the IAASB has done a good job in drafting each of these Parts in the proposed LCE standard. Each Part is clear, concise and comprehensive, and generally includes an appropriate amount of EEM. However, we have summarized some suggestions for changes below:

Part 1 - Fundamental Concepts, General Principles and Overarching Requirements

- **Suggestions re Requirements:**

- Paragraph 1.6.2 - The statement "In the absence of identified or suspected non-compliance with law or regulation, the auditor is not required to perform audit procedures regarding the entity's compliance with law or regulations, other than what is required by this [draft] standard" may create the impression that the only requirements are in paragraphs 1.6.1 and 1.6.3. Consider adding a cross-reference to paragraphs 7.4.24 and 7.4.25 at a minimum as EEM.
- Paragraph 1.6.2 - There may be local legal or regulatory requirements (e.g., whistle-blowing or anti-money laundering procedures) that require the auditor to perform some audit procedures regarding the entity's compliance with laws and regulations. This should be mentioned within the requirement paragraph itself. Alternatively, the reference to local legal and regulatory requirements could be added as EEM, consistent with the considerations specific to public sector entities.

- **Suggestions re EEM:**

- Introductory text box for Part 1 - Consider adding a cross-reference to the Glossary in this text box so that readers are aware of the Glossary in Appendix 1.
- Paragraph 1.2.1 - EEM under section 1.2.1 states: "*If an engagement quality review is required by the firm's policies or procedures established in accordance with ISQM 1, then ISQM 2 applies.*"

Paragraph 34(f) of ISQM 1 states: "*The firm establishes policies or procedures that address engagement quality reviews in accordance with ISQM 2, and require an engagement quality review for:*

- (i) *Audits of financial statements of listed entities;*
- (ii) *Audits or other engagements for which an engagement quality review is required by law or regulation; and (Ref: Para. A133)*
- (iii) *Audits or other engagements for which the firm determines that an engagement quality review is an appropriate response to address one or more quality risk(s). (Ref: Para. A134-A137)"*

The application material under paragraphs A133 & 134 in ISQM 1 further describes scenarios where an engagement quality review may be appropriate in relation to points ii) & iii) above. Consider adding these paragraphs from ISQM 1 as EEM.

- Paragraphs 1.8.6 and 1.8.8 - In the event fraud is perpetrated by senior management themselves and there are no other members of TCWG, the application of this communication requirement would not be practical. As this is a common scenario for LCEs, consider if there should be an EEM paragraph discussing it.

Part 2 - Audit Evidence and Documentation

- **Suggestions re EEM:**
 - Paragraphs 2.3 and 2.4 - We like the inclusion of references to Automated Tools and Techniques; consider adding additional guidance on data analytics.

Part 5 - Planning

- **Suggestions re EEM:**
 - Introductory text box for Part 5 - Consider a comment in this introductory text box that planning also includes all of the requirements in Part 6.

Part 6 - Risk Identification and Assessment

- **Suggestions re Requirements:**
 - Paragraphs 6.2.1 and 6.2.2 - In paragraph 6.2.2, the proposed LCE standard states *“The procedures to identify and assess risks of material misstatement shall include: ... (c) Observation **and inspection**”*. (Emphasis added). Contrast that to the immediately preceding EEM for paragraph 6.2.1 which states *“Some less complex entities, and particularly owner-managed entities, may not have established structured processes and systems (e.g., a risk assessment process or a process to monitor the entity’s internal control system) or may have established processes or systems with limited documentation or a lack of consistency in how they are undertaken. When such systems and processes lack formality, compliance with the procedures in this Part is still required. For example the auditor may still be able to perform the required procedures through observation **and inquiry**”*.

These two statements seem contradictory – one refers to inquiry and the other to inspection. Given that the requirement in the standard refers to inspection, will there be an expectation that at least something needs to be inspected in the instances where entities do not have established processes or systems in place? We believe that with respect to risk identification and assessment for LCEs, observation and inquiry should suffice.

- Paragraph 6.5.11 - The stand-back requirement at the end of risk identification and assessment in paragraph 6.5.11 highlights the issue with the subjectivity of the scope of the standard and the requirement to transition to a full ISA audit:
 - If after this stand-back, the auditor realises they cannot continue under ISA for LCEs, even though so far they have obtained enough documentation to

support a reasonable assurance opinion, they would be required to go back to client acceptance, and start over under 'full ISAs'.

- However the procedures performed to that point already capture the principles of the ISAs, but not perhaps their detail.

This highlights our concern over the practical application of the transition requirements in the proposed LCE standard, which may in practice make it unusable for most entities.

Part 7 - Responding to Assessed Risks of Material Misstatement

- **Suggestions re Requirements:**

- Paragraphs 7.3.4 - The ordering could better mirror the flow of an audit and highlight the impact of doing tests of controls on substantive audit responses if you moved the subsection on 'Substantive Analytical Procedures' (currently 7.3.4) to after the subsection on Substantive Procedures (currently 7.3.16 to 7.3.19). This will result in the ordering of the subsections being:

- Audit procedures responsive to the assessed risks of material misstatement at the assertion level
- Audit sampling
- Tests of controls
- Substantive procedures
- Substantive analytical procedures
- External confirmations, etc.

- Paragraphs 7.4.2 - Section 7.4.2 seems to be inconsistent, or at least not in spirit of the overall requirement, with the auditor not having to request management to perform a formal going concern assessment when one has not been performed. Specifically, it states: *"In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as used by management, as required by the applicable financial reporting framework. If that period is less than twelve months from the date of the financial statements, the auditor shall ask management to extend the period. If management does not make or extend its assessment, the auditor shall consider the implications for the auditor's report."* It is unclear why the auditor would be required to request management to perform an extension when management have performed a formal assessment, yet when management have not completed a going concern assessment, the auditor is not required to request such an assessment. We understand that management in an LCE may have difficulty performing a formal going concern assessment, in which case, inquiries by the auditor may be sufficient, but if management is able to perform such an assessment, perhaps the auditor should ask first before going immediately to an inquiry-based assessment.

- **Suggestions re EEM:**

- Paragraph 7.3.5 - Additional EEM on the following topics would be helpful:
 - How to select a sample which is representative of the whole population.
 - Clarifying that audit sampling is not the only way to select items for testing (for example, selecting specific items may be an appropriate response to an identified risk, even though every item in that population may not have had a chance of selection, and therefore the conclusion from the test cannot be extrapolated over the whole population).

Part 8 – Concluding

- **Suggestions re Requirements:**

- ISA 705 paragraph 10 regarding multiple uncertainties has been excluded from the proposed standard because it is expected to only arise in rare circumstances. However, if this situation only comes to light at the end of the audit when forming the opinion, it is not feasible to transition to a full LCE audit at that point. Therefore this requirement should be added to the proposed LCE standard.
- Paragraph 8.4.6 - Several requirements from ISA 560 on Subsequent Events (paragraphs 560.15 - .17 related to facts becoming known to the auditor after the financial statements have been issued) have not been included in the proposed LCE standard. The mapping document states that such situations are expected to be rare in LCEs. However, we believe that this situation does arise in LCEs. Since the proposed LCE standard does not permit application of requirements from the full suite of ISAs, this situation would require transitioning to the full ISAs, which would not be practical after the auditor's report has already been issued. Therefore, we believe that ISA 560.15 - .17 should be added to the proposed LCE standard.

Related to the previous point, if 560.15 - .17 is added to the proposed LCE standard, paragraph 230.13 should also be added in Part 2 related to the documentation of matters arising after the date of the auditor's report.

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:

- We do not agree with the requirement to refer to 'ISA for LCE' in our auditor's report if practitioners still need to comply with all relevant ISA requirements and obtain reasonable assurance. While referring to 'ISA for LCE' is more transparent to users, many feel that it just increases the expectation gap and may prevent practitioners from adopting the LCE standard when the work / documentation requirements are the same as those in the ISAs. If the IAASB revises the proposed LCE standard such that there were reduced performance and

documentation requirements, possibly resulting in a lower level of reasonable assurance, then we believe it would be critical to refer to the 'ISA for LCE' in the auditor's report.

- We do not see the need to include a specified format of an unmodified auditor's report as a requirement in the LCE standard. In some jurisdictions, local regulations may mandate a format for the report or may require long form reports. As long as those reports cover the minimum requirements for content in the LCE standard, that should be sufficient.
- We agree that the Reporting Supplemental Guide is an appropriate mechanism for providing sample auditor's reports.
- We believe that Tables B and C in section 9.5.1.B are extremely useful to practitioners. They present the various situations very clearly and succinctly, which will help ensure that practitioners can easily find this guidance. The IAASB may want to consider adding these tables to the relevant sections in the full suite of ISAs.

11. With regard to the Reporting Supplemental Guide:

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

Response: Yes, we believe the materials in the Reporting Supplemental Guide are helpful; they provide good background on various reporting matters. However, the body of the Reporting Supplemental Guide may be better positioned as an appendix to the proposed LCE standard; it would then be easily accessible by auditors, and it would elevate its nature to being authoritative. We think that the sample reports contained in the Appendix to the Reporting Supplemental Guide should remain in the Supplemental Guide as non-authoritative guidance.

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

Response: If the scope of the proposed LCE standard is revised to include group audits, it would be helpful to include examples of a group audit report in the Reporting Supplemental Guide.

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: See previous response to question 9.

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 main challenge will arise in instances where during one period the entity is out of scope of the LCE standard because of a one-off transaction (e.g., an estimate with high estimation uncertainty) that cannot be comprehensively audited without also performing procedures that would be required under the full suite of ISAs, especially where this is identified partway through the audit.

We also believe that if estimates with high estimation uncertainty remain in the qualitative characteristics of complexity, the need to transition to full ISAs may arise quite frequently – particularly as facts and circumstances change. It may not be practical for engagement teams to ‘switch over’ to a full ISA audit mid-way through the engagement as that may require switching to another automated auditing tool where the full ISA methodology is housed. As relevant ISA requirements are virtually the same in the full suite of ISAs and the ISA for LCE, it is not a productive use of time to replicate or move documentation from a LCE automated tool to the ‘full ISA’ version.

If the need to transition from an LCE audit to a full ISA audit is retained in the proposed LCE standard, consider whether there should be an Other Matters paragraph added to those auditor’s report to highlight the underlying audit standard has changed from one year to the next. Other possible additions to the transition requirements / EEM that would need to be considered are guidance relating to opening balances, comparative figures and engagement letter clauses.

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

Response: We do not think that support materials will resolve the situation of an estimate with high estimation uncertainty that arises during the audit; we believe the scope of the proposed standard needs to be revised to remove the estimates scenario.

If a situation exists where an entire ISA standard that was excluded from the proposed LCE standard becomes relevant during the audit because of new events which occurred between the planning of the engagement and the engagement performance (e.g., the entity issues share based compensation, which requires a valuation method with a high level of estimation uncertainty, and therefore requires the application of ISA 540R), we do not see the harm in performing the requirements of that standard in the LCE file. But our understanding is that such a ‘top-up’ is not allowed so we would have to start the audit over using an audit tool that is based on the full suite of ISAs. To start the audit over using full ISA automated tools is just not practical, so no support material will solve that problem.

As far as other situations that could arise during the audit (e.g., a change in ownership structure, a change in the entity’s IT environment or IT systems, significant changes in operations, etc.), which would, under the draft requirements, require teams to transition to the full ISAs, again we do not believe that support materials will resolve the issue. Unless the audit software that an engagement team uses can convert an LCE file to a full ISA file automatically, no amount of support materials will make the transition process efficient. Since the LCE requirements are essentially equivalent to a full ISA audit, we are not sure what the support material would even highlight.

In summary, we believe that transitioning to a full ISA audit is not a reasonable expectation; we believe that auditors should be able to add new ISA requirements that become relevant during the audit to the LCE file (as facts and circumstances arise), and then change the auditor’s report to refer to ISAs and provide the level of transparency required by users of the financial statements.

However, this only works if the ISA for LCEs and ISAs essentially have the same requirements and provide the same level of assurance. If the IAASB agrees to remove more requirements from the proposed LCE standard to simplify it more and perhaps provide a lower level of assurance, then it will be difficult to ensure that all extra work is performed and documented in the LCE file to support

an ISA opinion. The further apart the 2 standards become, the need to switch to an ISA audit tool will increase.

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

Response: Yes, the proposed process makes sense.

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

Response: It may depend on the nature of the standard (for example a reporting requirement versus a performance requirement). If the corresponding ISA allows early adoption, so should the ISA for LCE. Consistency with the adoption of the corresponding ISA is important so that auditors who perform both types of engagements are not confused on whether the revised standard is to be implemented on a particular engagement.

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 believe that ISA 800 should be included in the proposed LCE standard because many 'less complex entities' prepare special purpose financial statements and single-financial statements which are often subject to audit too. Excluding the requirements of the ISA 800 series may limit the applicability of ISA for LCE even more than it would already be in many jurisdictions.

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: As a global organization operating in many different jurisdictions, we are unable to provide a definitive response to this question. In some jurisdictions, the proposed LCE standard will be adopted, but in other jurisdictions, the proposed LCE standard will be prohibited by regulators, standard setters and/or certain BDO firms.

However, we can say that if the proposed LCE standard is not revised as discussed previously regarding estimates, group audits and transitioning, a greater number of BDO firms will not be able to adopt the proposed LCE standard as currently drafted.

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

Response: As described above, we do not believe the proposed LCE standard as currently drafted will meet the needs of the various stakeholders. Auditors do not perceive any reduction in audit effort or documentation, so there is likely to be little change from how they audit LCEs currently under the

full suite of ISAs. Audited entities will not be happy that the auditors are required to do essentially the same work but then refer to ISA for LCE in the auditor's report, which implies a lesser (or different) level of assurance. Education of users of audited financial statements will also be needed so they understand what they are getting in order to determine whether performance of an LCE audit meets their needs.

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

Response: We have nothing additional to mention here.

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: As stated in our overall comments and throughout our response, we feel the scope of the standard needs to be revised.

Section 4G - Approach to Consultation and Finalization

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

Response: We have nothing new to suggest here.

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: In numerous responses to various Exposure Drafts, we have continued to urge the IAASB to consider the dissemination and further translation of its standards in order to aid adoption and implementation globally. We would like to congratulate the IAASB on their recent launch of the 'eis' platform which now makes the full suite of ISAs available to all users electronically and provides various online tools to aid navigation (e.g., hyperlinks, links to resources, definitional pop-ups). This, in our view, will likely improve access to the IAASB's standards and is to be strongly supported. We also believe that given advances in technology, the IAASB (and other independent standard-setting boards supported by IFAC) should further consider how translation tools could be built into the 'eis' platform.

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 would welcome a period of at least 24 months for the following reasons:

- i) This is a standalone standard and audit firms may have to re-design, pilot, revise and implement portions of their methodologies and audit tools.
- ii) The standard has been fast tracked and field testing has not been performed.
- iii) This would allow for a longer trial/preparation period (2 financial year ends) when compared to historic changes to the ISAs (18 months) – the latter is generally considered an acceptable time frame when coming from a suite of existing standards.
- iv) There are 2 other significant standards being implemented in roughly the same time frame – ISQM 1 and ISQM 2. Implementation of these standards require a significant investment of time and resources by firms, so implementation of the LCE standard may not get the attention it deserves.

A proposal for a delayed mandatory adoption, with early adoption being permitted, may bridge the gap between the urgency from certain participants, and these practical difficulties.

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: As discussed above in question 4, we do not believe that all group audits should be excluded from the scope of the proposed LCE standard. There are a significant number of audit engagements involving group audits even for LCEs. The approach of excluding all group audits from the ISA for LCE substantially reduces the application of the proposed LCE standard.

There are many examples of group audits that are not complex that should be able to use the LCE standard, including:

- Groups that consist of one or more holding companies (which hold investments or property, plant and equipment)
- Wholly-owned components with little or no revenue-generating operations
- Certain group structures that are done only for tax planning purposes; the consolidated entity is operated as a single unit with common management of all entities in the group. As the complexity of the group structure increases, risk also increases, so very complex group structures should not be able to use the LCE standard
- Trusts with corporate trustees
- A sole proprietor business with a local trust holding the beneficial interest
- Groups with dormant components
- Groups where the group auditor (group engagement partner at a minimum and perhaps also the engagement manager) audits all components, all of which are performed under the LCE standard (i.e., no use of other component auditors).

If the proposed LCE standard is revised to allow it to be used for group audits, the qualitative characteristics can include examples of complexities that would preclude certain group audits from using the LCE standard. For example:

- Where some of the components in the group do not qualify as LCEs
- Where the group has significant components in more than 1 jurisdiction (that differ from the parent)

- Where the group auditor does not audit all significant components and therefore needs to use the work of other component auditors
- Where there are multiple operating entities in the group.

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: There will still be audits of single entities that use the standard, but excluding group audits from the proposed LCE standard will reduce the number of audits performed under the LCE standard.

- (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: We cannot quantify this for our organization given the range of views provided by individual BDO firms.

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

Response: See response to question 22 above.

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

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: The use of component auditors may be a suitable proxy for complexity, although this would have to be complemented with qualitative considerations (as for non-groups) to ensure that

complex groups for which the group auditor is also a component auditor, or perhaps even the auditor of all components, are not automatically permitted to be audited under ISA for LCE.

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: We are in favour of option (a) as this carve-out approach could help manage the perceived length of the standard for audits of non-groups, and would allow jurisdictions to exclude the entire Part if they do want to scope group audits into the LCE standard. Other users would still be able to reference accordingly to relevant parts through the use of cross references in the standard.