

S	SUOMEN
T	TILINTARKASTAJAT

International Auditing and Assurance Standards Board
529 5th Avenue
New York, New York 10017
USA

January 25, 2022

Comments to IAASB's Exposure Draft on Proposed International Standard on Auditing of Financial Statements of Less Complex Entities (ISA for LCE)

The Finnish Association of Authorised Public Accountants (Suomen Tilintarkastajat ry) is pleased to respond to the IAASB's Exposure Draft on *Proposed International Standard on Auditing of Financial Statements of Less Complex Entities (ISA for LCE)*.

Summary of comments

We appreciate the work done by the ISA for LCE Task Force of the IAASB regarding the draft ISA for LCE and we want to thank the IAASB for taking the LCE standard on its agenda and for considering it as an urgent matter.

We strongly believe that a standalone standard focusing on audits of LCEs is a proper way to address the challenges the auditors in the Nordic region are facing regarding audits of LCEs, especially SMEs. It plays an important role in maintaining relevance of the SME audit and decreasing the need for national standards.

Even though the draft standard is already a giant leap forward regarding guidance on audits of LCEs, it should leave more room for auditors' professional judgement and enhance the scalability even further. Our comments below include several proposals for improvements which, in our understanding, would benefit the auditors of LCEs without endangering the provision of reasonable assurance and high-quality audits. We have identified such requirements especially relating to planning, risk assessment, communication, and documentation. Our comments are written from the point of view of a Finnish audit.

We do not support the exclusion of the group audits.

S	SUOMEN
T	TILINTARKASTAJAT

We give more general comments and responses to the specific questions below. For further information on our comments please contact Riitta Laine on +358-40-7560676 or via email at riitta.laine@tilintarkastajat.fi.

Yours sincerely,



Ilkka Kujala

President

Finnish Association of Authorised Public Accountants

Finland

Our General Comments on Proposed ISA for LCE

The draft ISA for LCE is easier to read, understand and apply than the current ISAs. This enhances the know-how as well as the probability of applying ISA for LCE appropriately. The implementation of the new standard will probably improve the quality of audits and make it more consistent.

Even though the standard is a giant leap forward regarding guidance on audits of LCEs, it does not change the audit performed in accordance with ISAs in practice. Our comments include several proposals for improvements which, in our understanding, would help the auditors of LCEs (incl. audits of SMEs) without endangering the provision of reasonable assurance and high-quality audits. Our comments are written from the point of view of a Finnish audit. Therefore, we include a summary of Finnish audit environment after these general comments.

We would like to emphasize the following facts: The standard has been expressly written for less complex audit engagements. These are not assumed to include any circumstances or matters requiring thorough and highly tailored planning or any specific preliminary communication within the audit team or with the client. Neither would there be any high risks or a big number of risks that would be difficult to tackle with basic audit procedures or would require complex audit procedures. Accordingly, the audit of an LCE is rather straightforward, and the risks associated to it are easily identifiable and mostly low. The audit of financial statements can largely be performed according to a 'basic process' without significant client-specific or period-specific tailoring. This should be kept in mind when finalizing ISA for LCE.

S	SUOMEN
T	TILINTARKASTAJAT

ISA for LCE should be written so that only those requirements that are absolutely necessary in all engagements – even the smallest engagements – in order to obtain reasonable assurance, are mandatory. Requirements relevant to circumstances and situations could be added to these mandatory requirements where necessary in order to obtain reasonable assurance. One option to obtain this is through a “building block approach”, another is to make some requirements alternative to each other and/or conditional. Whatever the approach, more room should be left for auditor’s professional judgement.

The draft standard clarifies some unclarities there were previously relating to scalability in the ISAs. However, it includes several requirements that are not scalable at all or are not scalable enough for the purpose of the smallest engagements. Mentioning self-evident matters, such as not needing to have a team discussion if there is no team, does not facilitate scaling.

In some jurisdictions the audit thresholds are low, and even very small entities would be audited – in the future these audits would be conducted in accordance with ISA for LCE. The standard should be scalable enough in these situations and also when the audit is performed in its entirety after the year-end. Some requirements in the standard would clearly assume that management has made estimates or prepared documentation on certain matters. This is not the way management operates in most small and less complex entities, and the auditor is left with uncertainty regarding how to act without requiring management to do something that it is not required to do according to local legislation.

If there is not enough scalability, there is a risk that national discussions and developments will continue regarding national SME standards, adoption of services providing a lower level of assurance, or rising the audit thresholds. There have been this kind of discussions in Finland too.

We do hope that the IAASB would reduce the requirements as compared to ISAs even more daringly, or make the requirements alternative or conditional on situations or circumstances. The auditor should be, more than currently, permitted to use professional judgment as to which requirements are necessary to be met in an engagement in order to obtain reasonable assurance – without compromising a high-quality audit. We have identified such requirements especially relating to planning, risk assessment, communication, and documentation.

We do not support excluding audits of consolidated financial statements.

Finnish audit environment

As compared to other European countries, the audit thresholds in Finland are low (balance sheet total 100 000 euros, revenue 200 000 euros, personnel 3). Also entities other than limited liability companies are subject to statutory audit. There has been a lot of discussion about statutory audit thresholds in recent years in Finland. It has also been discussed whether a review should be permitted as an alternative to audits for micro-sized entities. However, the Finnish stakeholders want audit to remain a statutory service also for smaller entities. They want to have reliable and high-quality financial reporting extensively, not merely as larger entities are concerned.

Mandatory audit covers approximately 80 000 business enterprises in Finland. Most of them are small and usually also less complex, appr. 95 % of Finnish companies are classified as small companies (balance sheet total 6 million euros, revenue 12 million euros, personnel 50). In addition, for example limited

Suomen Tilintarkastajat ry
(Finnish Association of
Authorised Public Accountants)
Reg. No. 0221727-0

Fredrikinkatu 61 A
FI-00100 Helsinki
Finland

tilintarkastajat.fi
toimisto@tilintarkastajat.fi
+358 9 7552 2010

S	SUOMEN
T	TILINTARKASTAJAT

liability housing companies, associations and foundations are subject to statutory audit in Finland, and the total number of audit reports issued annually on the financial statements of various entities is approximately 118 000. We estimate that ISA for LCE could be applied in most of these audits.

The audits of small entities are often performed entirely after the end of the financial year, i.e. at one time. No separate planning or interim audit procedures are done, and the audit consists of substantive procedures only – there is no reliance on controls or testing of controls. Audits are often performed remotely, and, as a result of digitalization, more and more clients grant their auditors a direct access to their accounting records and software. The software is usually a commercial off-the-shelf software, and only the bookkeeper working in an accounting service organization is entitled to record journal entries. Supporting documents and records, such as financial statements, contracts, and minutes of meetings, are also often provided in a digital format.

In Finland, the statutory thresholds for preparation of consolidated financial statements are the same as the size limits for a small company (see above). A requirement to prepare consolidated financial statements may also be based on other laws, such as the Foundations Act. Consolidated financial statements are always combined with the parent’s financial statements, and the auditor of the parent is the auditor of the group, too. Most groups are small, domestic, and relatively simple. Also the preparation and auditing of consolidated financial statements is relatively straightforward. Typical examples of Finnish groups include: a holding company plus a subsidiary with business operations; a foundation/ an association plus a subsidiary with some business operations; and a parent plus a real estate company.

In the light of the developments of the Finnish audit environment and the ISAs, it has long been recognized in Finland that the ISAs are too burdensome and complex – even after applying all possible scalability opportunities (some of them being national). From the Finnish point of view, the challenges associated to the application of ISAs do not relate only to the clarity or understandability of the standards, but also to the fact that **there are simply too many requirements taking into account the size and complexity of the entity**. The expectation and main hopes in Finland were that ISA for LCE would primarily bring relief to these challenges.

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?

We strongly support the standalone nature of the standard. The differences between audits of complex global entities and local less complex entities are big and will most likely be even bigger in the future. We also support the solution to keep ISA for LCE in the “ISAs family”.

S	SUOMEN
T	TILINTARKASTAJAT

We do not, however, support the fact that ISA for LCE duplicates almost all ISA requirements except those that for obvious reasons are not applicable. This fact decreases the relevance of the standard and the willingness to apply it. The IAASB should reduce the requirements and clarify scalability and proportionality, so that there is a clear distinction between ISAs and ISA for LCE.

- (b) The title of the proposed standard.

We support using the word ISA in the title – it is important. The standard could also have been called “ISA for less complex audits.” The audit of a less complex entity is also less complex, and referring to the complexity of the audit would not “disparage” entities (clients).

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

No specific comments.

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?

No specific comments.

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?

Yes.

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

No comments

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

Paragraph A.5. is confusing. Does it add something to the list given in A.7. or is it more like an argument leading to subsequent paragraphs? Paragraphs A.5. and A.6. could be removed. The IAASB could consider dividing the restrictions in three parts; absolute restrictions, those that can be amended by local authorities and those that are qualitative characteristics. See also comments to question 4.b)

S	SUOMEN
T	TILINTARKASTAJAT

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

More clarity is needed.

- (e) Is the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions clear and appropriate?

The proposed role is appropriate. However, if group audits were not included in the scope of ISA for LCE, the restrictions regarding them could (at least) be made similar with restrictions in A.7(c), meaning that national modifications are allowed. We would emphasize, though, that we prefer removing group audits from A.7(d) as commented in Section 5.

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

We support the specific prohibitions in A.7(a-c). The IAASB should, though, align A.7(c) with the newly approved definition of PIE (by the IESBA). We do not support excluding group audits in A.7(d), and we will comment on that separately in Section 5.

- (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.

We mainly agree with the qualitative characteristics, but we think that the examples given in A.9. can be too restrictive, especially if they are interpreted strictly without reading the Authority Supplemental Guide. For example, mentioning entities “*in the developing stage*” is too restrictive. Many SMEs start from scratch and therefore are in their first years in the development stage, but in all other respects they are less complex.

Determining whether an engagement includes complex characteristics is a matter of professional judgement. The interpretation may vary a lot between auditors, auditor oversight bodies and stakeholders in different jurisdictions, which may cause inconsistencies in the application of the standard. What one considers complex is not complex to the other (e.g. Black & Scholes model, cash flow forecasts, goodwill or POC). Therefore, we think that it is useful to give as many practical examples as possible in the EEM or Authority Supplemental Guide. The examples should include not only the most obvious cases but also those in the “grey area”. National guidance is needed so that typical entities and national characteristics as well as laws and regulations can be taken into account. National accounting standards may not include as many complex (or even non-complex) accounting estimates or fair value calculations as IFRS, and this should have an effect on the consideration of complexity at national level.

One qualitative characteristic should not usually prohibit the application of ISA for LCE as stated in paragraph A.9. However, it would be useful to have examples on possible situations or kind of issues which could, on their own, be the reason – if there were any. These cases should, however, be limited.

5. Regarding the Authority Supplemental Guide:

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

We think that the Authority Supplemental Guide is helpful. More examples could be given (see comments to question 4.b) and unnecessary repetition should be avoided. The IAASB could also consider carefully whether the guidance given in the Authority Supplemental Guide would be better incorporated in Part A of the standard instead (e.g. as EEM or Appendix).

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

The existence of paragraph 7.4.27. suggests that the use of auditor's expert is not necessarily an implication of complexity. This could be mentioned in the Authority Supplemental Guide. See also comments to question 4.b).

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

No specific comments

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).

ISA for LCE is based on ISAs, and the requirements in ISA for LCE are replicated and adapted from the ISAs with only slight linguistic simplifications. Compared to ISAs, only those requirements that were most obviously not relevant for LCEs have been left out. Those are the requirements that relate to more complicated conditions and situations. As these requirements are or have not been relevant anyway, the transitioning from ISAs to ISA for LCE would not change the audit of an LCE much in practice.

The spectrum of LCE audits is wide (mainly due to the size), and therefore the standard should be even more scalable – in which professional judgement is needed. We hope that the IAASB would reduce the requirements more daringly, or at least make them alternative or conditional on situations or circumstances. The auditor should be permitted to use more professional judgement as to which requirements are necessary to be met in the engagement in order to obtain reasonable assurance – without compromising a high-quality audit.

S	SUOMEN
T	TILINTARKASTAJAT

More room for professional judgment could be given e.g. in paragraphs 1.4.1-1.4.3. Paragraph 1.4.2 states that “*The auditor shall comply with all relevant requirements unless 1.4.3 applies.*” The relevance is tied to the circumstances of an audit (1.4.1.) and the ineffectiveness of the procedure (1.4.3.). It is not always clear, when and to what extent professional judgement can be used to determine that a procedure is irrelevant. For example, in an audit of a small and owner-managed LCE it is not efficient or even necessary to inquire, communicate and document the planned procedures (5.4-5.5. and 6.6-6.8), especially when the entire audit is conducted in a few days.

If the definition of a relevant requirement cannot be widened or made more clear, another option would be to use a “building-block approach“ in all the parts of the standard. The IAASB would need to consider, what are the absolutely necessary requirements that must be met in all – even the tiniest – engagements (“core requirements”) and what requirements are optional or conditional depending on what is relevant in the circumstances (“add-on requirements”).

We will give detailed examples of what requirements could be optional or conditional (or be left out) below in Section 4E.

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

No specific comments

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

Although we agree with the risk-based approach, we would emphasize that in the smallest of LCEs the risks are fairly clear, low and few. The auditor should always be able to exercise professional judgement in a way that allows an efficient quality audit.

- (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.

We support incorporating the relevant application guidance (EEM) into the standard and presenting it in connection with the requirements it applies to. The EEMs are mainly useful. They also help scaling down the requirements at certain circumstances. With some EEMs it is, though, not clear what the scaling effect is in practice – can the requirement be ignored partly or in total? It is also not always clear whether the EEM refers only to the requirement presented before it or also the following ones related to the same issue. So, the positioning of the EEM needs to be considered carefully and in a consistent matter.

From the scalability and applicability point of view, we would prefer that the alternativeness and conditionality were incorporated to the requirement itself. This would also help with the building and updating the audit software and checklists that are usually constructed at the level of a separate requirement.

Because the effects of EEMs to the requirements are not always clear, they can be interpreted differently by different auditors, stakeholders and software providers – especially when it comes to scaling.

There is useful application material in the ISAs regarding scalability and all of it is not yet incorporated in ISA for LCE. For example, we identified some good scalability points that are missing compared to newly revised ISA 315:

- a) ISA 315.A18: *“The nature and extent of risk assessment procedures to be performed the first time an engagement is undertaken may be more extensive than procedures for a recurring engagement. In subsequent periods, the auditor may focus on changes that have occurred since the preceding period.”* Adding these sentences into EEM in 6.2.1. or 6.2.2. should be considered.
- b) There are also good points in ISA 315.A52-53 that could be added – e.g. the impact of auditor’s previous experience with the entity and the nature and form of the entity’s documentation.
- c) ISA 315.A113: *“In some LCEs, and particularly owner-managed entities, an appropriate risk assessment may be performed through the direct involvement of management or the owner-manager ... but it may be evident from the discussions the auditor has with the management that management are in fact performing risk assessment procedures.”* This point could be added in the EEM in Paragraph 6.3.7.

ISA 315.A170 refers to commercial software. Most SMEs use only such off-the-shelf software, and it would help with the scaling of the requirements if these cases were considered in an EEM of the standard, e.g. in 6.3.11 or 6.3.14.

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).

We support the overall approach, design and structure of the standard. We appreciate it that the structure follows the natural flow of the audit – it makes the standard logical and easy to read. We also support the use of EEMs in the right context compared to the application material being a separate part of each ISA. This further helps the auditors to find relevant guidance when needed. A logical flow helps with the building and updating of the audit software – although we have some comments about EEMs to question 7.d).

However, we think that the objectives stated in paragraphs 100-101 are not achieved. ISA for LCE is still too comprehensive in terms of requirements, and too much time is still needed identifying what is applicable and what is not. The requirements incorporated in the standard are referred to as “core requirements”. We do not agree with all of them being necessary in all LCE audits and therefore being “core” requirements.

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.

We present below some detailed comments about the different Parts of the draft standard that could, in our opinion, be streamlined further without compromising reasonable assurance and quality audit. We suggest that the IAASB increases alternativeness and the use of professional judgement in deciding whether a requirement is relevant or efficient in the circumstances. One should always consider the value of the procedure/requirement to the ultimate goal of the audit – a reasonable assurance on that the financial statement does not include material misstatements – not to the audit process.

Our comments are given mainly from the Finnish point of view (low audit thresholds, big number of SMEs, big number of audits conducted entirely at once, big number of remote audits etc.) and they aim to the appropriateness of the standard in regard to an SME audit.

PART 1: FUNDAMENTAL CONCEPTS, GENERAL PRINCIPLES AND OVERARCHING REQUIREMENTS

Part 1 is very important. It could, though, provide more overall guidance on the communication and especially the scalability of the standard. Even a standard with a limited and focused scope needs to be sufficiently scalable. The majority of statutory audits in the Nordic region concern micro entities, and in these applying of ISAs is most challenging. (See also our comments in 7.a).

1.8 Communication

In the requirements and EEMs in Paragraph 1.8 it is stated that professional judgement is being used in deciding on the form, timing and content of communication as well as the appropriate persons with whom to communicate. Nevertheless, other parts of the standard include several communication requirements that overrun these general communication requirements.

The auditor should be able to use professional judgement in determining the form, timing and content of communication regarding all sections of an audit. In SME audits it should be possible to make necessary inquiries and communicate relevant issues in one phone call or meeting – not separately at planning phase, during the audit and after audit. Professional judgement should apply to the appropriate form (oral/formal written/informal written) and content depending on the circumstances, risk assessment, previous experience with the client and the structure of ownership/management etc.

From the SME point of view, some requirements are not always necessary in obtaining reasonable assurance and should therefore be removed or at least made conditional – examples of these are the requirements in 5.4.1 and 6.6.1.

S	SUOMEN
T	TILINTARKASTAJAT

PART 2: AUDIT EVIDENCE AND DOCUMENTATION

2.5 General Documentation Requirements

The documentation requirements are too extensive in many parts of ISA for LCE. More room for professional judgement could be left. General documentation requirement could include a statement that clearly not applicable requirements do not require further documentation or reasoning.

Compared to ISA 230.A5 there are some missing words in this sentence: *”Oral explanations, by the auditor on their own, do not adequately support the work performed by the auditor or the conclusions reached.”* The missing words *“but may be used to explain or clarify information contained in the audit documentation”* should be added to ISA for LCE. Oral explanations can be very important in an external quality inspection, particularly if the quality inspector does not understand the statements, notes and markings made by the auditor. The auditor might, for example, have used words and expressions that diverge from the language used in the ISAs or his/her written presentation might not be clear.

Also, parts of ISA 230.A7 could be included in ISA for LCE (as EEM) to emphasize that it is not necessary or practicable to document every matter.

In 2.5.1.(a)(i) the identifying characteristics are not described. In ISA 230.A12 there is a good sentence that should be included in an EEM: *“Identifying characteristics will vary with the nature of the audit procedure and the item or matter tested.”* Also, some examples given in ISA 230.A12 could be added. This is because there seems to be a misunderstanding that an invoice number or a journal number is the only acceptable way to document the characteristics.

The requirement in paragraph 2.5.7 should be removed or scaled. In LCEs, and SMEs in particular, communication with management and others is usually informal and oral.

PART 3: ENGAGEMENT QUALITY MANAGEMENT

Most LCEs are not subject to engagement quality review. This could be taken into account in part 3. The need for such review could actually be considered an indicator of complexity!

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

4.6 Initial engagements

4.6.1 In our opinion, it should be a matter of professional judgement in an LCE audit whether there is a need to communicate with the predecessor auditor. The other requirements in paragraph 4.6 are usually sufficient in obtaining sufficient audit evidence. SME auditors typically have dozens or even hundreds of small clients, and clients can change auditors quickly at a short notice – sometimes in the middle of the busy season. It creates unnecessary burden on both auditors if communication is always required.

PART 5: PLANNING

The main goal of an audit should be to obtain sufficient audit evidence and reasonable assurance on the financial statements – not that the audit was planned and communicated or conducted according to the plan in all respects.

In LCE audits and particularly in SME audits, the audit is often conducted at one time (often in 1-2 days). There is no separate planning phase, or at least the planning is very light and is usually done based on the previous year’s audit, just before starting the further audit procedures. There might not even be a team or at least it is very small and works closely together. The auditor reacts to the findings and mis-statements ‘on the go’ and has no need to update the plan, if there even is a detailed one. Going back to the plan, communicating and documenting changes is not necessary for the sake of sufficient assurance.

For these reasons, the requirements regarding planning (including risk assessment), related communications with the team and the client and the documentation of all this, as well as possible updates, are far too burdensome for an LCE/SME audit. Especially the requirements in 5.2.6 and 5.4. and 5.5. should be made conditional based on professional judgement or even be partially removed.

5.2.12-13 Going concern (also Parts 7, 8 and 9 as regards to going concern)

The requirements regarding going concern are now scattered in different parts of ISA for LCE. Although this might be necessary for the “flow”, it might cause confusion, omission of some procedures and unnecessary overlaps. The IAASB could consider presenting the procedures regarding going concern in a more streamlined way in one or at a maximum of two parts of the standard.

As stated in EEM in 7.7.4, the management of an SME rarely makes a detailed written documentation to support the assumption used. An auditor’s responsibility should be simply:

- to conclude on the appropriateness of management’s use of the going concern basis of accounting (5.2.12 and 8.5.7)
- to conclude whether a material uncertainty exists (5.2.12. and 6.6.1.(g))
- to remain alert throughout the audit (5.2.13 and 8.5.8)
- to conclude that there are adequate disclosures in the financial statements (8.5.9-10)
- to report accordingly (part 9.5.1.p-s)

The auditor should inquire of management about potential events and conditions that can cast significant doubt on the going concern (6.6.1.(g) and 7.4.4). Only when a written assessment is done, the requirements regarding the assessment should apply – otherwise the procedures listed above should be enough.

5.3 Materiality

Materiality is a very important concept in audit. Calculating and using materiality varies a lot among auditors, leading, for example, to very different materiality thresholds and scoping. The IAASB could use this opportunity and further guide the auditors in this matter. For example, rules of thumb for ranges

S	SUOMEN
T	TILINTARKASTAJAT

or cutters as presented in the “*Guide to Using International Standards on Auditing in the Audits of SMEs*” could be added to ISA for LCE as an EEM or an Appendix. An Appendix could also present other examples and take into account different kinds of entities – all clients are not profit-oriented.

EEM 5.3.1: “*When profit before tax from continuing operations is volatile, other benchmarks may be more appropriate, such as gross profit or total revenues.*” An SME’s profit before tax is often low, volatile or even negative. Especially in owner-managed companies the owners might withdraw an amount of salary that equals profit before tax or use other legal means for minimizing taxes. The EEM should not give the impression that profit before tax would be the preferred basis for calculating materiality, because it might lead to unnecessarily low materiality levels and an inefficient audit. A slightly different wording in the EEM would be good.

The flow of an audit would benefit from calculating the amount below which misstatements would be considered clearly trivial as in 7.7.1.(e) in connection with other materiality figures.

5.4 Specific Communication Requirements

Most LCEs are so small that it does not make sense to communicate separately the planned scope, timing and direction, even if there is a separate plan. This requirement should be more scalable.

5.5 Specific Documentation Requirements

As we have already stated in our comments elsewhere in this letter, the documentation requirements are too burdensome considering the variety of sizes of LCEs and the complexity of their audits. An example are the documentation requirements in paragraph 5.5.

It should be acceptable to combine the documentation of planning with the documentation of further procedures, as much as possible.

PART 6: RISK IDENTIFICATION AND ASSESSMENT

6.2.2 Risk assessment procedures

The majority of LCE audits are continuous audits of clients that the auditor already knows. In LCE engagements, the most important issues for the auditor to have an understanding of the applicable financial reporting framework as well as the entity, its environment and its accounting policies. This knowledge is usually accumulated. Many of the issues which the auditor needs to understand in LCE audits are easily visible or analyzable from the financial statements and supporting documents. Therefore, the risk assessment procedures in 6.2.2 could be alternative to each other (“...shall include one or more of the following...”) – using professional judgement.

S	SUOMEN
T	TILINTARKASTAJAT

6.3 Understanding Relevant Aspects of the Entity

There are several issues in paragraph 6.3 that are not relevant for a sufficient understanding of a small and especially owner-managed entity. There is some useful scalability guidance given in EEMs, but there could be more. Furthermore, as we commented to question 7.d), it is not always clear what the scaling effect of EEM is in practice.

The IAASB could consider adding more alternativeness or conditionality in part 6.3.

One option could be to add to 6.3.1 the following: “*The auditor shall understand, to the extent relevant in the events and circumstances...*”. Something like this could be also added separately in every component of the internal control system, or you could start the requirements with “*if relevant...*” or “*if the auditor determines it necessary...*”.

6.3.6, 6.3.7 and 6.3.8 could be merged.

Most SMEs use commercial off-the-shelf software or at least their IT environment is simple (complex IT environment and systems being qualitative characteristics!). It would help with the scaling of the requirements if this kind of cases was considered in an EEM, e.g. in 6.3.11 or 6.3.14. and the understanding of IT environment then could be fairly narrow taking also into account that most entities use a service organization for accounting and have no other than reading rights to it.

6.4 Identifying Risks of Material Misstatement (RoMMs)

The RoMMs and therefore also relevant assertions in an LCE audit are often few, and easy to identify and get evidence on. The risks are also usually mainly low (or nonexistent) because there are no complex conditions (precondition for the application of ISA for LCE!). Having to focus too much on risk assessment at assertion level might cause ineffectiveness in smaller engagements. Most SME audits consist entirely of substantive procedures and some substantive procedures shall be performed for each material class of transactions, account balance, and disclosure in any case. Although relevant risks are a matter of professional judgement, it would be useful to add EEM guidance on the fact that in small and owner-managed companies the RoMMs are often few.

Risk identification and assessment could be merged because in LCE audits they often are done together.

In 6.4.2 the presumption that there are risks of fraud in revenue recognition and the possibility to rebut it are the same in ISA for LCE as it is in current ISAs. ISA for LCE is meant for less-complex entities, and there are no complex conditions present. Therefore, the presumption should be removed or changed to a matter of significant amount of professional judgement. If the presumption was removed, paragraph 6.8.1.(d) should be removed as well.

If removing the presumption is not possible, at least the following should be changed in 6.4.2:

- A clause has been added to EEM compared to ISA 240.A31 (words added into ISA for LCE underlined): “*The presumption that there are risks of fraud in revenue recognition may be rebutted. For example, the auditor may conclude, based on the audit evidence obtained, that there is no risk of material misstatement due to fraud relating to revenue recognition in the case where*

S	SUOMEN
T	TILINTARKASTAJAT

a there is a single type of simple revenue transaction, for example, leasehold revenue from a single unit rental property.” This clause makes the assessment more difficult. What kind of evidence is needed? Is the accumulated knowledge from previous years or understanding of the business model or applicable framework enough? We suggest removing the added clause and keeping the guidance similar to ISA 240.

- The standard gives only one example on rebutting (single unit rental property). More examples should be given of typical situations where rebutting the presumption is allowed. There must be many others in the LCE environment!

Paragraph 6.5.7.(a)(ii) overlaps with 6.4.2. The requirement could be simplified stating that all fraud risks identified should be treated as significant risks.

Paragraph 6.6.1 requires many inquiries of management. Many of the issues are such that the management in a small entity

- cannot answer
- directs the questions to the service provider
- has no supporting evidence to corroborate them (e.g. 6.6.1 (a)(d)(e)(f)). Complying with these requirements can therefore be difficult for auditors.

Part of the requirements, such as 6.6.1(b) and (c), could be considered being moved under paragraph ‘Understanding the Entity’s Control System’, or at least an EEM should be added to guide in the cases where there are no formal and regular internal procedures and/or communication.

In ISA 315 (revised 2019) A.53 there is a sentence that should be added to ISA for LCE: *“The depth of the understanding that is required by the auditor is expected to be less than that possessed by management in managing the entity.”*

PART 7: RESPONDING TO ASSESSED RISKS OF MATERIAL MISSTATEMENT

Management Override of Controls

Paragraph 7.4.7 does not include requirements and could be an EEM instead.

The inquiry requirement in paragraph 7.4.8(i) could be optional in owner-managed entities where the financial reporting process consists of the owner-manager and an accountant.

Related Parties (7.4.9-15)

The management of an SME rarely keeps record of related party relationships or transactions, or has formal related controls. We would suggest streamlining the requirements regarding related parties. Auditor’s responsibilities should simply be:

- to inquire of management on related party relationships and transactions as part of understanding the entity (in continuing audits inquiring about changes should be sufficient)
- to remain alert throughout the audit for related party transactions
- to audit significant transactions outside the entity’s normal course of business

S	SUOMEN
T	TILINTARKASTAJAT

- to conclude that there are adequate disclosures in the financial statements
- to report accordingly

In paragraphs 7.4.10 and 7.4.11(b) there are requirements to share relevant information with the team. In our opinion, sharing the relevant information with the team is essential in all phases of an audit. There could be a general requirement in Part 1 stating that “all relevant information must be communicated with the team in a timely manner” relevance being a matter of professional judgement. The separate requirements like those in 7.4.10 or 7.4.11(b) could then be removed.

7.4.17 Accounting Estimates

In LCEs, the presumption is that there are no complex estimates. In the audits of most SMEs the procedures in paragraph 7.4.17 add no value to the audit. It should be removed.

7.4.19-21 Inventory

In SMEs, there is not necessarily any separate inventory software or even any formal tracking of inventory transactions during the financial year. Inventory counts are often performed once a year, and there might not be any formal controls or management’s written instructions for inventory counts. The management of an SME often participates in the counts or does it itself. In Finland it is common that an auditor’s clients are performing their yearly inventory counts on the same day. For these reasons, it is sometimes impractical for the auditor to attend inventory counts of all the clients or to evaluate the instructions.

The IAASB should consider removing the presumed requirement to attend inventory takes from ISA for LCEs. Instead, the audit approach regarding inventory should be similar to other balance sheet accounts and be dependent on auditor’s risk assessment, circumstances and professional judgement. Participating in inventory counts should be just one of the possible audit procedures, not a presumption.

At the least, the focus should be in significance of the account rather than in materiality. Significance should be assessed using the term “*significant account balance*” like in ISA 315 (revised 2019). Therefore, the term “material” should be changed in the first paragraph 7.4.19. [The same change should be made in ISA 501.] The consequence of this change should also be considered. If there are no relevant assertions related to inventory, or the risks do not relate to existence, the attendance in inventory count should not be a presumption.

Also, if the presumption will not be changed, the IAASB should consider adding examples on where alternative procedures (such as auditor’s own inventory counts) can be applied by default. At the moment, there is one example of impracticability in EEM.

7.4.26 Using the Services of a Service Organization

We support the manner in which the requirements are presented in 7.4.26 starting with “if”, then “determining whether...” and “if not, then perform further procedures”. The same kind of approach could be used in other paragraphs as well, such as regarding related parties or going concern.

Paragraph 7.6.3 is too long and unclear. It would be easier to understand and translate if it was split into two sentences. Taking into account that there shouldn’t be complex accounting estimates, we would suggest removing the requirement.

S	SUOMEN
T	TILINTARKASTAJAT

PART 8: CONCLUDING

8.4. Subsequent Events

In most SMEs there are no formal processes or controls to detect the events occurring after the date of the F/S. It is easy for the management of an SME to be or become aware of such events and to assess their impact on the F/S. This is specially the case in owner-managed businesses. This point should be added in an EEM.

In LCEs, auditor's responsibilities should simply be

- to inquire of management on subsequent events and about whether such an event is appropriately reflected in the F/S
- to conclude that there are adequate disclosures in the financial statements
- to report accordingly.

Therefore, at least the requirement in 8.4.2(a) should not be mandatory. Also, there might not have been any meetings between the date of the F/S and the date of the auditor's report (8.4.1(d)) and, therefore, we would suggest adding words "if such meetings have been held".

Paragraphs 8.4.4-8.4.6 mention issuing the F/S. Whether "issue" means public availability on company website or Business Register, many Finnish entities never issue their F/S. It could be mentioned in an EEM that in such cases there are no further responsibilities for the auditor after the date of the auditor's report.

We suggest that the requirement to obtain written representations is changed to being based on risk assessment and professional judgement.

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.

We support the fact that Auditor's Report given on an LCE audit is similar to the one given on an ISA audit.

There are some missing words in paragraph 9.6.3 compared to ISA 710.13: "...and decides to do so..." Removing these would have a massive effect on an auditor's reporting!

ISA for LCE should allow the auditor's responsibilities to be presented on a website with reference in the Auditor's Report, as do the ISAs.

11. With regard to the Reporting Supplemental Guide:
- Is the support material helpful, and if not, why not?
 - Are there any other matters that should be included in relation to reporting?

No specific comments.

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.

Our comments regarding the improvements are given above.

Section 4F – Other Matters

13. Please provide your views on transitioning:
- Are there any aspects of the proposed standard, further to what has been described above, that may create challenges for transitioning to the ISAs?
 - What support materials would assist in addressing these challenges?

ISA for LCE and supporting material should emphasize that there should be relatively few cases where there is a need to switch to ISAs during the audit. A separate non-authoritative guidance could be useful.

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

After finishing ISA for LCEs, the cord to the ISAs needs to be cut! All major changes to the ISAs would probably relate to complex matters anyway, and would therefore not affect LCE audits. Thus, the importance of a separate standard for LCEs (and SMEs) will be even more important in the future.

The need to update ISA for LCE should be evaluated regularly, but not yearly, and it should not be considered necessary to copy all the changes made in ISAs. We recognize that it would be better, if the language, terminology and core requirements were as similar as possible between ISAs and ISA for LCE in the future too, but changing something in ISAs does not diminish the reasonable assurance that ISA for LCE provides.

A stable platform would help with the maintenance of audit software and checklists, and also the knowledge of the requirements would remain up-to-date longer.

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

Yes, early adoption should always be allowed, unless the revision is tied to a new or revised law and the adoption needs to be dependent on that law.

S	SUOMEN
T	TILINTARKASTAJAT

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

No specific comments.

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.

From a Finnish point of view, ISA for LCE is considered an international standard on auditing, just like the current ISAs, and its application is therefore allowed by the Finnish Auditing Act. In our discussions with the legislator, we did not recognize any need to amend the Auditing Act. Therefore, ISA for LCE could be applied immediately after the IAASB has approved it.

We do not anticipate any suggestions to further limit the use of the standard nationally. The standard would therefore be widely used in Finland.

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

There are high hopes for the standard among auditors and other stakeholders. The current draft standard does not meet all of them. Without further development of ISA for LCE there is a risk that not all auditors or firms would want to implement it. The national developments and discussions about raising the audit thresholds etc. might also continue.

The IAASB plays an important role in informing stakeholders that audit quality is not compromised when applying ISA for LCE instead of ISAs!

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

No specific comments

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?

Inquiries

Many of the requirements regarding inquiries are based on the assumption that management understands the questions asked by the auditor and knows the answers. The smaller the entity, the more probable it is that the management has not considered or has no knowledge of the issues, or has not prepared or kept track of matters ISA for LCE expects. The auditor might be aware that the management's skills and competences over accounting and audit are so poor that the replies given cannot be 100 % trusted and therefore all evidence must be obtained from other sources in any case. The auditor should be able to perform the audit in compliance with standards and efficiently even if this is the case.

Suomen Tilintarkastajat ry
(Finnish Association of
Authorised Public Accountants)
Reg. No. 0221727-0

Fredrikinkatu 61 A
FI-00100 Helsinki
Finland

tilintarkastajat.fi
toimisto@tilintarkastajat.fi
+358 9 7552 2010

S	SUOMEN
T	TILINTARKASTAJAT

Communications within the team

There are separate requirements regarding the communication of the engagement team. The timing, form and content of such communication should be a matter of professional judgement and depend on the circumstances – especially when there are no particular matters to communicate and/or the matters are routine and simple. In assessing the timing, form and content of the communication, the auditor could consider for example

- the complexity of the engagement
- the team’s previous experience with the client
- the competence of the team members with audit and accounting
- the level of education of the team members (e.g. in Finland audit associates usually come from business schools)
- the size of the team

If the auditor conducts the audit alone, which is very common in Finland, he or she would not need to comply with the team communication requirements. This should be obvious without mentioning.

All the above-mentioned team communication issues could be presented in Part 1 of ISA for LCE and be removed from other parts.

Section 4G - Approach to Consultation and Finalization

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

IFAC’s “*Guide to Using International Standards on Auditing in the Audits of SMEs*” has been a good guidance for Finnish SME auditors. As the guidance refers specifically to SMEs, it is relevant to LCEs as well. We hope that the IFAC decides to update the guidance to correspond with ISA for LCE. We would also like to give our comments for improvement of the guidance if IFAC decides to update it.

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.

In general, the draft is understandable and uses plain English that is fairly easily translated in Finnish. Much of the text seems to be copied from the ISAs as such or with little modification. This would be an excellent opportunity to simplify the language without changing the meaning.

A lot of cross-references to other parts of the standard have been used. This makes the standard more difficult to read.

Examples of complex sentence structures

5.2.6 EEM

“The engagement team discussion may also include other matters related to the audit such as the logistics, operational and other matters (such as when risks of material misstatement may have changed from prior years or matters related to relevant ethical requirement including independence) and the timing of the audit and communications that are required”

S	SUOMEN
T	TILINTARKASTAJAT

The text is too complex, especially the one in brackets. There is ‘or’ between a when-clause and the ‘matters’, which are of a different form. It seems that this has been a list which has been written into a sentence with some modification.

Clauses starting with ‘including’ can cause challenges in translations. Sometimes it is difficult to know whether what follows is an exhaustive list of just examples. There are languages where the translation would be different. Having an ‘including’ clause in the middle of the sentence often makes the sentence complex. Here are some examples of complex structures:

6.2.3 EEM: *‘If the auditor uses ATT, the auditor may design and perform procedures to identify and assess risks of material misstatement on relatively large volumes of data (from the general ledger, sub-ledgers or other operational data) including for analysis, observation or inspection.’*

6.2.4 *‘When identifying risks of material misstatement, including those arising from fraud, the auditor shall consider information from all procedures designed and performed for risk identification to determine whether fraud risk factors are present, including: ...’*

6.3.6 *‘The auditor shall evaluate whether management (with the oversight of those charged with governance, if applicable) has created and maintained a control environment that provides an appropriate foundation for the other components of the entity’s internal control system, including determining whether there are any deficiencies in the control environment that undermine the other components of the entity’s internal control system.’*

=> Here ‘including’ could refer to ‘evaluate’, ‘created and maintained’ or ‘provides’

6.6.1 *‘In designing and performing procedures to identify and assess the risks of material misstatement due to fraud or error, the auditor shall make inquiries of management regarding: ...*

(f) Non-compliance with law or regulation that may have a material effect on the financial statements, and inspecting correspondence, if any, with the relevant licensing or regulatory authorities; and’

=> inquiries regarding inspecting...? Inspection is an audit procedure; why is it in the list of inquiries of management

Examples of other complexities:

What is called *overall audit strategy* in the ISAs is called *scope, timing and direction of the audit* in the draft ISA for LCE. This phrase that often appears in the text makes it much more difficult to translate. The overall audit strategy could be defined as scope, timing and direction of the audit and so avoid repetition.

Some expressions have several forms in the English language, such as system of internal control / internal control system. Mentioning both may cause confusion in translation, as many languages may have only one translation for both forms. This clearly shows that the text has been written for an English-speaking audience. In practice, the standard might be applied primarily in jurisdictions where English is not an official language.

S	SUOMEN
T	TILINTARKASTAJAT

Examples of sentences where the structure is not clear:

A.8. second bullet: *‘Topics, themes and matters that increase, or indicate the presence of, complexity, such as those relating to ownership, corporate governance arrangements, policies, procedures or processes established by the entity’*

=> it is not clear whether ‘established by the entity’ refers to processes only or whether it covers more items in the list

6.3.8 *‘For this purpose, the auditor shall understand the entity’s process to monitor the entity’s internal control system, including the sources of information and the basis upon which management considers the information to be sufficiently reliable, as well as how deficiencies are remediated.’*

=> the phrase at the end seems to refer to “the auditor shall understand” but it is in a different form than ‘the process to monitor’ and thus makes it difficult to analyze the sentence

4.7.1 *‘The auditor shall communicate with those charged with governance the auditor’s responsibilities for forming and expressing an opinion on the financial statements prepared by management, and that the auditor’s responsibilities do not relieve management or those charged with governance from their responsibilities for oversight of the preparation of the financial statements.’*

=> It first says that financial statements are prepared by management, but at the end it says that also management has responsibilities for oversight. In other parts of the standards, oversight of preparation of financial statements is assigned to those charged with governance.

6.3.9(a) *‘For significant classes of transactions, account balances and disclosures, how those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements, as well as...’*

=> you first mention transactions, account balances and disclosures, and immediately thereafter refer to “those transactions” – the account balances and disclosures are forgotten. The list that follows refers to some of them, but this may be confusing.

6.3.3 *‘The auditor shall understand: (a) The applicable financial reporting framework including, for accounting estimates, the recognition criteria, measurement bases, and the related presentation and disclosure requirements and how these apply in the context of the nature and circumstances of the entity and its environment’*

=> It is not clear what ‘these’ refers to.

6.3.14 *‘The auditor shall identify controls that address risks of material misstatement at the assertion level as follows:*

(f) Controls, if any, to identify, account for, and disclose related party relationships and transactions in accordance with the applicable financial reporting framework, authorize and approve significant transactions and relationships with related parties, and authorize and approve significant transactions and arrangements outside the normal course of business.’

=> controls to identify, account for and disclose ... and controls to authorize and approve? We understand that authorization and approval are controls, not a thing to be controlled?

7.3.2 EEM *‘In an audit of an LCE, the auditor may not be able to identify many controls, or the extent of documentation prepared by the entity to which they exist or operate may be limited. In such cases, it may be more efficient for the auditor to perform further audit procedures that are primarily substantive procedures’*

=> is there something missing from the sentence?

S	SUOMEN
T	TILINTARKASTAJAT

Other matters

Words such as *consider*, *involve*, *aspect* etc. cause translation challenges in many languages, as there are not necessarily any direct equivalents. These words are used a lot.

ISA 315(2019) includes the term '*IT applications and other aspects of the IT environment*'. Especially '*other aspects*' is difficult to translate in an understandable way. Is it really necessary to use it in ISA for LCE?

The first time the word '*assertion*' appears within the text of the draft standard itself is in paragraph 5.2.8 where '*relevant assertions*' appear all of the sudden. They are explained in appendix 4, but here they come as a surprise. Could there be some kind of reference to assertions before mentioning them in the text?

Possible error

5.3.1 EEM after paragraph

'...the auditor's perception of the financial needs of user of financial statements'.

⇒ Do you mean financial information needs? The auditor cannot be aware of their financial needs.

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.

We support the suggested time span of 18 months.

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.

The group audits should definitely be included!

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:
- Would you use the standard if group audits are excluded? If not, why not?
 - 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?
 - What common examples of group structures and circumstances within your practice would be considered a less complex group.

No comments.

S	SUOMEN
T	TILINTARKASTAJAT

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):
- The IAASB establishes a proxy(ies) for complexity for when the proposed standard may be used (“Option 1 - see paragraph 169); or
 - 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.

If needed, the scope can be limited either using proxies or qualitative characteristics. For example, international groups could be considered as complex because of differences in national legislation, and perhaps also applicable financial reporting framework might be different (effect of using IFRS?). Another option is to consider groups where the components are audited by other than the group auditor as complex, although this might raise questions for example about immaterial non-consolidated components.

We consider Option 2 better, but we recognize that it leaves more room for judgement and might therefore lead to different interpretation and practices. If diversity between legislations is ok, this matter could also be left for national legislators to decide, because the thresholds for preparing group financial statements as well as the practice of how they are consolidated differ.

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?

No specific comments.

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

We prefer option a)

It would be more clear for both group auditors and those who do not need it.

If group audits were excluded, ISA for LCE should clearly state that

- ISA for LCE can be applied in the component audits (if not complex or otherwise prohibited)
- when it can be or cannot be applied in the audit of the parent’s financial statements (when they are presented in same F/S?)
- what does it actually mean to apply ISA for LCE in group audits – other than excluding/including the non-relevant standards such as ISA 600? Especially if majority of operations and financial activities occur in components and the parent is “only holding”. Guidance should be given regarding this.