



International Auditing and Assurance Standards Board  
529 5<sup>th</sup> Avenue  
New York, New York 10017  
USA

May 2, 2023

**Comments to the IAASB's Exposure Draft of proposed Part 10, *Audits of Group Financial Statements* of the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)**

The Nordic Federation of Public Accountants (NRF) is pleased to provide comments to the IAASB's Exposure Draft of proposed Part 10, *Audits of Group Financial Statements* of the proposed ISA for LCE (the LCE standard).

We strongly believe that the LCE standard could be an important tool in maintaining a relevant and value adding audit market for LCEs. To achieve this the standard needs to be fit for purpose, an attractive alternative for the users and accepted by the regulators.

NRF is pleased to notice that the IAASB has reconsidered its initial proposal to prohibit all group audits from the scope of using the LCE standard. In our view the overall success of the LCE standard, especially among SMPs, will depend on the possibility to use the standard also when auditing less complex groups.

We appreciate the challenges in determining the scope of included groups, but we are concerned that the proposed scope will exclude a large number of less complex groups and hence affect the overall use of the standard. Therefore, we would have preferred a more principles-based approach that would have allowed for more professional judgments.

Regardless of the final design of the scope, we strongly encourage the IAASB to closely monitor the adoption of the standard, provide implementation material and continue its outreach activities, especially with the regulators. In particular, we recommend an early post-implementation review where focus should be on understanding how the scope regarding group audits has affected the overall use of the standard.

NRF

Yours sincerely,

A handwritten signature in black ink that reads "Helene Agélie". The signature is written in a cursive style with a prominent flourish at the end of the name.

Helene Agélie  
Secretary General and CEO  
Nordic Federation of Public Accountants

**About NRF**

NRF is a separate legal institution, founded in 1932, acting on behalf of and under the direction of the recognized audit and accounting institutes in the Nordic region (DnR in Norway, FAR in Sweden, FLE in Iceland, FSR – danske revisorer in Denmark and Suomen Tilintarkastajat ry – in Finland).

## DETAILED COMMENTS

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

We believe the relevance and cost-benefit value of future audits of LCEs are quite strongly linked to the success and broad adoption of the LCE standard. In this regard, the way the IAASB will address and design the scope of prohibited group audits is very important since it will affect the overall use of the LCE standard. Auditors will not invest time or money in understanding and applying the LCE standard if many of their LCE audits will be excluded from the scope.

Group audits in relation to the usability of the LCE standard is closely linked to ISA 600 (Revised), which has not even become effective yet. Also, as noted in the ED the revised definition of group financial statements included in the revised standard will most likely deem more LCEs to be a group than under extant ISA 600.

In addition, ISA 600 (Revised) introduces new definitions of component auditor and engagement team. There are already concerns and uncertainties about how to interpret these key definitions. These issues will affect how to interpret the scope of group audits in the LCE standard.

In our view, using a principles-based approach that allows the use of the LCE standard on less complex groups, in which all entities are less complex, is more consistent with the general drafting of the standard. Such approach would also include more less complex groups in the scope of the LCE standard. Although we appreciate that allowing the use of the standard on group audits where component auditors are involved will impact the suggested drafting of Part 10, this would still be our preferred option.

However, since such an option most likely would impact the timing of the approval of the standard, we accept the proposed scope.

Given the importance but also the challenges related to the design of the group audit scope we encourage the IAASB, once the standard has been approved, to closely monitor its overall adoption. In particular, and especially if the proposed scope will be included in the approved LCE standard, we strongly encourage an early post-implementation review which should focus on understanding how the scope regarding group audits affects the overall use of the standard.

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

Paragraph A3 is intended to provide factors that indicate that the group might be less complex. However, we wonder if the way the paragraph is drafted, i.e., “these

## NRF

considerations shall apply” without including any reference to the use of professional judgement, might lead to a too literal interpretation where the intended exemplary objective risks getting lost.

Given that and considering regional and jurisdictional differences both in terms of the reasons for and the frequency of less complex groups, we do not support including quantitative examples linked to Group Structures and Activities in paragraph A3. For example, in the European Union with its open market for services, goods and finance it is rather common also for less complex groups to set up entities in several (i.e., more than three) member states.

If the IAASB would still like to provide quantitative examples as guidance, we suggest including them in another document, for example in the Supplemental Guidance for the Authority.

We also suggest deleting the first bullet linked to the “Consolidation Process”. In our view the use of different accounting policies within the group is not necessarily in itself the problem. Rather, the issue is related to how complex the consolidation adjustments would be and that issue is already addressed in the last bullet.

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

Yes, we agree with the content given the proposed limitation in prohibiting the involvement of component auditors.

We recognize that should the IAASB decide to change the scope of when component auditors can be involved, this would require further consideration of the material in proposed Part 10.