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Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue,
New York, New York, 10017 USA

RE: Exposure Draft - Proposed Part 10, Audits of Group Financial Statements of the Proposed International Standards on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE) and Proposed Conforming Amendments

Dear Mr. Botha,

BDO International Limited¹ is pleased to have the opportunity to respond to the International Auditing and Assurance Standards Board's (IAASB or Board) Exposure Draft - *Proposed Part 10, Audits of Group Financial Statements of the Proposed ISA for LCE and Proposed Conforming Amendments (Exposure Draft)*.

We acknowledge the effort that has gone into the ongoing development, consultations with stakeholders and revisions of the proposed ISA for LCE, especially with regards to audits of group financial statements. We appreciate that several of the comments/recommendations made in our previous comment letter on the exposure draft of ISA for LCE with regards to Group Audits have been considered and incorporated in the Exposure Draft.

Our responses below describe those areas where we agree with the IAASB's approach, and specific matters or terminology that may require some further consideration or guidance in order to provide for a successful adoption and application of the Exposure Draft.

Responses to Specific Questions

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 agree with the proposed prohibition including the limited circumstances noted, except for one consideration, that the exemption for performance of specific audit procedures not to be restricted to when physical presence is needed for those procedures. For example, if a component is not geographically close to the group auditor and the plan is to only perform specific audit procedures at the component, the group auditor should still be able to request a component auditor to perform those specific audit procedures for practicality reasons. The work performed by the component auditor will still be supervised and reviewed by the group auditor. We are not requesting that component auditors be used to design and perform further audit procedures on the entire financial information of the component, nor proposing that the component auditor design and perform further audit procedures on one or more classes of transactions, account balances or disclosures; we request that the exemption be extended only when component auditors are needed to perform specific further audit procedures for practicality reasons.

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The situation in the preceding paragraph is most relevant when the component auditor is from the network firm or another network firm. When the specified procedure is to be performed by another auditor in the group auditor's firm (perhaps someone in a different office), we think that such an auditor could be a member of the group engagement team and would not be considered a component auditor. The guidance should recognize that firms now operate virtually so that geographical divisions between offices in a firm are less important. It is now common for engagement team members to be located in different offices. Therefore, using an auditor from a different office to perform specified procedures on a component does not make them a component auditor as long as they are operating as an engagement team member.

Similarly, if the group auditor contracts with an auditor from another firm or service provider to perform specified procedures on a component, and the contracted auditor will be directed and supervised by the group auditor, we believe that contracted auditor could still be an engagement team member and not be considered a component auditor.

In conclusion, if further guidance could be provided on when the auditor performing specified procedures on a component is a component auditor versus an engagement team member, that may address some of the concerns surrounding the exemption to the prohibition.

In addition, we strongly agree with retaining the prohibition when any of the group's individual entities is a listed entity or a PIE.

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?*

We agree with the proposed group-specific qualitative characteristics, however we have the following suggestions:

Group Structure and Activities

- We agree with the proposed group-specific qualitative characteristics for Group Structure and Activities, but we disagree with the inclusion of limits on the number of entities or business units (e.g., 5 or less) and the number of jurisdictions (e.g., 3 or less) in the requirements of the standard. We typically prefer that there are not hard lines drawn on limits such as these so that professional judgment can be applied, but for the sake of consistency of application, we think the proposed limits are reasonable and should rather be included in an essential explanatory material (EEM) paragraph as a guideline. In addition, we would suggest including 'typically' before these limits (e.g., typically 5 or less entities / typically 3 or less jurisdictions). This would allow an engagement team to apply their professional judgment when they want to use the proposed ISA for LCE for group audits in circumstances when the group structure and activities marginally exceed these limits. They obviously would need to document their rationale for wanting to exceed the stated limits and they would be responsible for the quality of their rationale.

Consolidation Process

- We appreciate the qualitative characteristics under Consolidation Process. The first 2 bullets, in particular, are important to keep the consolidation process not complex and therefore we agree with including them.
- We suggest adding another example to the Consolidation Process characteristics, indicating that when the translation of foreign currency of entities or business units (i.e., components) is required for consolidation purposes, it increases the complexity for the entity in performing the consolidation process, and the group would then be considered complex.

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

We agree with the content of proposed Part 10 and related conforming amendments, however we have the following comments on the content of proposed Part 10:

- In paragraph 10.2.2, the end of the sentence about considering ‘the possible effects on the group audit’ is vague and we recommend providing more clarity or guidance in what these possible effects might be. We suggest using detailed wording similar to ISA 600 paragraph 13 or referring to the effect on the audit opinion like in ISA 600 paragraph 45.
- The EEM for paragraph 10.5.1 only refers to risks of material misstatement due to fraud. While we agree with including group-specific guidance related to fraud, we think it is equally important to include group-specific guidance that covers material misstatements due to error. More specific guidance on the process for identifying risks of material misstatement, whether due to fraud or error, should be added to the EEM. The thought process of considering risks of material misstatement in components is important for LCEs to ensure that all risks of material misstatement at the group level have been identified.
- Paragraph 10.6.2 (d) only refers to responding to assessed risks of material misstatement due to fraud arising from consolidation process. While we agree with that, again, we suggest including the words ‘or errors’ in the sentence, as it is equally important to respond to assessed risks of material misstatement due to errors in the consolidation process.
- In paragraph 10.8.1 relating to specific documentation, we suggest adding bullets related to documenting the group-specific considerations in paragraphs 10.4.1 (understanding the group), 10.5.1 (identifying and assessing risks of material misstatement, including which components such risks reside in) and 10.6.1 (further audit procedures to be performed on components). We don’t think the general documentation requirement in Part 2.5 of ISA for LCEs is specific enough, particularly since ISA for LCEs paragraph 2.5.1 states that ‘Specific matters to be documented are set out throughout this [draft] standard’. This would suggest that we should include some specific documentation requirements in Part 10 beyond the two that are currently included in paragraph 10.8.1 (determination of components and basis for component performance materiality). For example, adding that the key elements of the understanding of the group’s system of internal control in accordance with paragraph 10.4.1.(b) shall be included in the audit documentation.

We appreciate the opportunity to comment on the Exposure Draft. We hope that our comments and suggestions will be helpful to you in your deliberations and in the development and finalization of the proposed ISA for LCE.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,

BDO International Limited



Daphna Smuckler

Global Head of Audit and Assurance