

May 2, 2023

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submitted electronically through the IAASB website

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

Dear Willie,

We would like to thank you for the opportunity to provide the IAASB with our comments on the “Exposure Draft: Proposed Part 10, *Audits of Group Financial Statements* of the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE) and Proposed Conforming Amendments”, hereinafter referred to as “the draft”.

In the Appendix to this comment letter, we respond to the individual questions posed in the Explanatory Memorandum of the draft. Furthermore, we have a few general issues that we would like to address in this letter below.

We welcome the proposed incorporation of a separate part within the ISA for LCE to deal with audits of simple group financial statements. However, we believe that the proposed authority on when the ISA for LCE may be used for group audits is too restrictive by not permitting the use of component auditors in general and is too restrictive in the nature of the qualitative characteristics relevant to group audits. We also note that proposed paragraph A3 is too restrictive in the application of the nature of the finance function to the group.

GESCHÄFTSFÜHRENDER VORSTAND:
Prof. Dr. Klaus-Peter Naumann,
WP StB, Sprecher des Vorstands;
Melanie Sack, WP StB,
stv. Sprecherin des Vorstands;
Dr. Torsten Moser, WP

Amtsgericht Düsseldorf
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Page 2/5 to the letter to the IAASB of 2 May 2023

We believe that if the audit of a group is simple, even with the use of component auditors and when the group has a decentralized finance function across the entities and business units, the application of the ISA for LCE ought to be permitted. Furthermore, the additional characteristics for group audits need to be more focused on complexity arising from having more than several, rather than having just a few, entities and business units.

We would be pleased to provide you with further information if you have any additional questions about our response and would be pleased to be able to discuss our views with you.

Yours truly,

Melanie Sack
Deputy CEO
Executive Director

Wolfgang Böhm
Technical Director Assurance Standards,
Director, International Affairs

541/584

Appendix 1:

Responses to the Questions Posed in the Request for Comments of the Explanatory Memorandum

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 do not agree with the proposed prohibition on the use of the proposed ISA for LCE for group audits where component auditors are involved, and in particular, to the limited circumstances where physical presence is required. There are many circumstances in which small and mid-sized audit firms use component auditors in other locations to perform audit work on components in other locations within a country, whether for expertise, convenience, or other reasons. Furthermore, within Europe, in which countries are often geographically smaller and there are many cross-border businesses, there may be jurisdictional differences requiring local expertise (e.g., local law, tax or business practices, and differences in official languages), and it is not uncommon for small and mid-sized firms to use component auditors for their local expertise or other convenience reasons. Often, such components may relate to very simple subsidiaries or branches reflecting simple production, sales, or other operations. In our view, it would be disproportionate to claim that such audits are so complex that the LCE standard cannot be used simply because of that fact that the financial statements constitute group financial statements as defined in ISA 600 (Revised). Permitting the use of component auditors would simply mean that Part 10 would need to be augmented by the relevant requirements in ISA 600 (Revised) on the use of component auditors.

We therefore urge the IAASB not to preclude the use of the ISA for LCE for audits of group financial statements involving the use of component auditors.

Page 4/5 to the letter to the IAASB of 2 May 2023

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 do not agree with all of 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. In particular, we take issue with the following:

- With respect to the Group Structure and Activities, we believe that the reference to “few” entities (often construed as two to four) and the reference to 5 or less entities to be too restrictive. We suggest that the word “few” be replaced by “not more than several” and that the example of five entities be deleted. The reference to “few” jurisdictions is also too restrictive for a European environment – particularly for Western Europe, where, for example, an entity headquartered in Western Germany could have branches in Switzerland, Luxemburg, the Netherlands, Belgium and France, but yet the branches are, at maximum, only a few hundred kilometers from the head office. Here as well we therefore suggest that the word “few” be replaced with “not more than several” and the example of 3 jurisdictions be deleted.
- With respect to the Consolidation Process, we believe that the description of what a “simple consolidation process” is, is too restrictive. The reference to the “same” accounting policies is too restrictive because the accounting policies across borders may be similar, but not precisely the same. Adjustments, if material, may be very easy to make. We suggest that the word “same” be replaced with “similar”. Likewise, if the entities or business units have different reporting periods, such differences, if not too great (e.g., a few months), can also be dealt with using simple accounting techniques that are not complex to audit. We also believe that sub-consolidations for small and medium-sized groups are quite common, such as when there is a holding company for tax reasons, but an additional holding company controls a few subsidiaries in another jurisdiction. Such a sub-consolidation is, per se, not necessarily complex. We therefore suggest that the term “complex” be inserted after the word “no” in this case.

With our proposed changes, we believe that the qualitative characteristics are focused more on true complexity and are therefore more proportionate for audits of LCEs or less complex groups.

We also have an issue with the proposed requirement in paragraph A3 extending the general qualitative characteristic “nature of the finance function”

Page 5/5 to the letter to the IAASB of 2 May 2023

not only to individual entities and business units, but also to the group. By extending the qualitative characteristic “nature of the finance function” to the group, the characteristic imposes a centralized finance function for the group, when a decentralized finance may be appropriate for each entity and business unit within the group. In addition, the separate simple finance functions with five persons or less for each entity or business unit would be added up for the group even though there is no increase in complexity in the financial information and the audit work related to each entity or business unit and, through the consolidation, no additional complexity for the group as a whole, which may only require less than five persons for the consolidation and accounting at headquarters. We suggest that paragraph A3 recognizes that the qualitative characteristic “nature of the finance function” relates to the entities and business units, but that this does not imply that a centralized finance function is needed for the group or that separate finance functions need to be added up for the group when considering this characteristic.

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

Subject to our view that Part 10 should be augmented for the requirements for the use of component auditors, we agree with the content of proposed Part 10 and the related conforming amendments.