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IAASB Consultation on Exposure Draft of Proposed Part 10, Audits of Group Financial Statements of the Proposed ISA for Audits of Financial Statements of Less Complex Entities (LCE)

Dear Sir

We thank the IAASB for the opportunity to give our view on the important subject of audits of less complex entities and especially the area of audits of less complex group financial statements. We hereafter provide you with our comments and views on the respective exposure draft.

We as EXPERTsuisse - the Swiss Expert Association for Audit, Tax and Fiduciary – represent some 5,000 Swiss certified auditors, tax and fiduciary experts as well as roughly 800 professional services firms managed by them. Our members and the Swiss profession as a whole are directly affected by the implications which are discussed in your document.

As a member of IFAC we welcome that the IAASB has developed an exposure draft for a separate standard for audits of less complex entities and consider this subject as an urgent matter as small- and medium-sized enterprises (SMEs) make a critical economic and social contribution.

You ask respondents to directly address the following questions:

Questions (Section 3, p. 10 of ED)

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

Our answers are as follows:

Ad 1. Prohibition of the use for group audits where component auditors are involved

We do not agree with the proposed prohibition of the use of the proposed ISA for LCE for group audits where component auditors are involved, other than circumstances where physical presence is required.

We acknowledge that the use of a “bright line” prohibition would reduce the level of judgment by an auditor when determining if the ISA for LCE can be used. Nonetheless, we believe that such a bright line is oversimplifying the issue. In practice we see - for example - many situations, in which SME groups acquire subsidiaries, in which the incumbent auditor is not replaced immediately. For Switzerland – a non-EU country – specifically, we also see a relatively large number of entities holding at least one subsidiary in an EU country to facilitate sales or sourcing activities. Such a structure does, in many cases, neither result in a complex group set up nor in a complex audit. In such situations the ISA for LCE would be prohibited without a valid reason. To put it in other words, the proposed criterion is not overall appropriate to differentiate between “complex” and “non-complex”.

Ad 2. Proposed group-specific qualitative characteristics

We do partially 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. In our view however, the number of entities (e.g. 5) and the number of jurisdictions (e.g. 3) in par. A3 is set too restrictive and, in our view, is set arbitrarily. Furthermore, or to make an example that illustrates our view, think of a non-complex group with sub-consolidations, where the non-complex group and its consolidation is straightforward.

Ad 3. Content of proposed Part 10 and related conforming amendments

We generally agree with the content of proposed Part 10 and related conforming amendments, but we do not see the real simplifications in the audit process for less complex group audits in comparison to complex group audits, especially when the scope to use the standard would be so narrow as (implicitly) proposed.

Kind regards

EXPERTsuisse

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