



May 6, 2023

Mr. Willie Botha – IAASB Program & Technical Director

cc: Mr. Tom Seidenstein – IAASB Chair

Mr. Kai-Morten Hagen – IAASB Member and ISA for LCE Task Force Chair

International Auditing and Assurance Standards Board

529 Fifth Avenue

New York, New York 10017

Re: 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)

Dear Mr. Seidenstein, Mr. Botha and Mr. Hagen,

Mazars welcomes the opportunity to comment on the International Auditing and Assurance Standards Board's (IAASB or the Board) Exposure Draft Part 10, Audits of Group Financial Statements of the Proposed ISA for LCE.

Mazars is a leading international audit, tax and advisory organisation, operating as a united partnership¹. Founded in Europe, we have grown into a global, connected partnership of over 47,000 professionals - 30,000 in our integrated partnership, 17,000 via the Mazars North America Alliance - with a presence in over 95 countries and territories, working seamlessly as one integrated team across borders, services and sectors.

Mazars is a member of the IFAC Forum of Firms, and thus fully supports, for more than 16 years, the initiatives of IAASB, IESBA, as well as those of the regulators in these areas of common concern for public interest, in promoting high quality standards as part of the international roll-out of audit engagements. All Mazars firms and correspondents are committed to support and apply those initiatives.

We would be pleased to discuss our detailed comments submitted hereafter with you and remain at your disposal, should you require further clarification or additional information.

Yours sincerely,

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¹ Mazars integrated transparency report: [Group transparency report 2021/2022 - Mazars Group](#)

General comments

Acronyms used in this letter:

IAASB's Pronouncement / Exposure Draft:	Acronym:
Proposed ISA for LCE as released in July 2022	Proposed-ISA-LCE
Proposed Exposure Draft Part 10 Audits of Group Financial Statements of the Proposed ISA for LCE released in January 2023	ED-LCE-Groups

1. Mazars wishes to express its appreciation for the inclusion of group audits in the Proposed-ISA-LCE.
2. As noted in our initial [Response Letter Mazars Jan 2022](#) to the IAASB's [Proposed-ISA-LCE](#); we are supportive of the inclusion of group audits, and in a separate section (i.e. Part 10), of the IAASB's Proposed-ISA-LCE. Our initial response letter explained, inter alia, that there are many groups that are not complex.
3. Overall, and as explained in paragraph 12 of Explanatory Memorandum, we support the assertion that the use of component auditors may sometimes be due to a practical consideration rather than due to the complexity of the group itself. It follows that the use of a component auditor is rather an attribute of the perceived complexity of a group audit, but not a feature of a "complex entity." Accordingly, as discussed in more detail below, we are concerned that the prohibition (as drafted) may unnecessarily exclude simple or less complex groups, purely because the group auditor may determine that the use of a component auditor is more practical in certain circumstances.
4. Related to the determination of a "less complex group," our response includes a recommendation to clarify the applicability of the auditor's exercise of professional judgment in the context of the provisions included in the Authority.
5. We would also like to note that our comments are based on the information presented in the ED-LCE-Groups. To clarify, our comments are not based on an evaluation of a complete and updated version of the Proposed-ISA-LCE, which recognizes the proposed revisions by the IAASB since exposure in July 2022. We believe such an evaluation may affect the nature and extent of our comments.

Responses to Consultation questions

Question 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?

6. We appreciate the intention of the proposed prohibition on the use of the Proposed-ISA-LCE for group audits where component auditors are involved, other than in circumstances where physical presence is required. We also appreciate the challenge that the IAASB faces in striking a balance between allowing the use of the Proposed-ISA-LCE for group audits, but at the same time restricting its use in undue circumstances.

7. However, we don't believe the use of component auditors is a feature of a "complex entity," but rather an attribute of the perceived complexity or work effort when performing a group audit. For example, assuming a component is based in another jurisdiction, the use of one or more component auditor may be favourably considered due to the group auditor's organisational requirements and to safeguard an effective and high-quality audit.
8. In contrast, when considering the other proposed qualitative characteristics of the proposed authority for Group Audits (presented in A.3. of the ED–LCE–Groups), such characteristics are (rightly) based on the complexity of the entity or group, rather than the complexity of the audit.
9. It is therefore our view that the proposals may unnecessarily exclude some very simple or less complex groups, purely because the group auditor may determine that the use of a component auditor is more practical in certain circumstances or may achieve a higher degree of audit quality in the public interest. The IAASB should also be mindful of the potential for unintended consequences regarding competition and choice in the audit market, whereby only certain firms/networks are able to deliver a group audit depending upon the restrictions put in place. As noted, such exclusions may be unintended, and we therefore ask that the IAASB consider extending the scope of the Proposed–ISA–LCE for group audits to include the use of component auditors to carry out specific audit procedures not amounting to a full-scope audit.

Question 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?

10. The examples in the Authority include groups with "...few entities or business units (e.g., 5 or less)," and where "group entities or business units are limited to few jurisdictions (e.g., 3 or less)."
11. We are concerned about the risk that the examples (described as "characteristics" in Part A3 of the Authority) may be interpreted as rules where we may end up in practice having to rebut "assumptions" that exceeding these numbers is evidence of complexity and taking us out of the LCE standard. Although we are cognisant of the risks of "too much judgment" in the proposed Authority,² we don't interpret the proposals or the Explanatory Memorandum to mean that the exercise of (professional) judgment is prohibited. Nonetheless, we recommend that the intended scope of the auditor's exercise of judgment in the context of the Authority is clarified. In doing so, it may be worth:
 - a. Explaining the applicability of the auditor's exercise of judgment in the context of the Authority, noting that it is presumably excluded from the scope of "professional judgment" in an audit of financial statements in accordance with the proposed ISA for LCE. In other words, clarity is required about whether the provisions in the Authority are subject to auditor judgment, and if so, whether it's deemed to mean the same as "professional judgment" in accordance with ISA 200?
 - b. Considering replacing, or explaining, the use of the term "qualitative characteristics" (as presented in A.3. of ED–LCE–Groups), e.g., intended to be used as "indicators" of groups that are included in the scope of the ISA for LCE, subject to the auditor's exercise of professional judgment.

² The Appendix in the IAASB's Explanatory Memorandum noted that respondents to ED-ISA for LCE expressed concerns that the Authority was too open or involved too much judgment.

- c. Adding, for example, that a group with highly homogenous operations across more than 3 jurisdictions/5 business units may be less complex based on the auditor's exercise of professional judgment (e.g., group of small hotels in a single jurisdiction, or property rentals where each property is set up as a separate entity).

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

- 12. When considering the proposed "*Part 10 – Audit of Group Financial Statements*," there is no reference to the prohibition and/or the limited circumstances when the standard may be applicable for group audits. We believe it may be easily missed by auditors and a reference (to Part 3) in Part 10, alerting the auditor to the limited use of the ISA for LCE's for group audits, may be helpful.