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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

The Financial Reporting Council (FRC) welcomes the opportunity to respond to this Request for Comments. As the UK's Competent Authority for Audit, our mandate includes: the setting of auditing, assurance and ethical standards; inspection of public interest entity audits and enforcement action against auditors. We also oversee the accountancy profession in regulation of its members and take public interest misconduct cases where conduct falls below expected standards (e.g., where practitioners fail to comply with the fundamental principles and requirements set out in the Code of Ethics). The FRC also is responsible for setting the UK Corporate Governance Code and its associated guidance.

As explained in our response to the original consultation in 2021,¹ the UK has a statutory audit exemption threshold which applies to a significant proportion of the entities likely to fall within the scope of the ISA for LCE. The UK Government has taken steps to address regulatory burdens on small and less complex entities by removing auditing requirements for certain categories of businesses. This means that companies which fall below specific thresholds for net assets, number of employees and turnover are exempt from having a statutory audit.² However, in order to strike an appropriate balance between a lighter touch regulatory regime and public accountability, more complex entities, such as smaller banks and insurers, and other entities that are of public interest, such as charities, are still subject to statutory audit requirements or have lower exemption thresholds.

The proposed amendments to include less complex group audits within the scope of the ISA for LCE does not change our view that there is insufficient grounds for adoption in the UK. That said, we support the view of the IAASB that on balance the use of component auditors should be excluded from the scope of the ISA for LCE, recognising the overall pervasive theme that the scope of the proposed standard should better reflect the typical LCE for which the ISA for LCE is intended to be designed for. However, we are still of the view that the scope and authority of the ISA for LCE is too loosely defined. In particular, the qualitative characteristics—including the proposed additional characteristics relevant for group audits—allow too much

¹ <https://www.frc.org.uk/getattachment/a4350051-f3a0-40ec-870d-3688c797e5cc/FRC-ED-ISA-for-LCE-response-letter.pdf>.

² Companies which fall below two of the following thresholds do not require an audit: an annual turnover of no more than £10.2 million; assets worth no more than £5.1 million; 50 or fewer employees on average.

scope for auditor judgement as to whether the use of this standard is appropriate in the circumstances.

If you have any questions about our response, please feel free to contact me directly.

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