



創於 1913 年
Founded in 1913

香港華人會計師公會 The Society of Chinese Accountants & Auditors

(在香港註冊成立之有限公司)

(Incorporated in Hong Kong as a company limited by guarantee)

30 March 2023

Standard Setting Department
Hong Kong Institute of Certified Public Accountants,
37th Floor, Wu Chung House,
213 Queen's Road East,
Wanchai, Hong Kong

E-mail : commentletters@hkicpa.org.hk

Dear Sir/Madam,

Re: Comments on the 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)

We are writing on behalf of the Society of Chinese Accountants & Auditors ("SCAA") in response to the Proposed Part 10 of the ISA for LCE.

SCAA has been supporting Hong Kong since 1913, we are an incorporated body of professional accountants, most of our members are practising accountants and representing a significant number of practising firms of accountants, which are small, medium and large sized, in Hong Kong.

We aim to provide a professional development channel for all practising accountants and subsequently cater to the care and needs of the community in Hong Kong. To maintain high standards of professional conduct, SCAA fosters communication among its members, assisting them to advance the theory and practice of accountancy. SCAA also initiates discussions of hot issues in accounting industry and is committed to look for suggestions and solutions for our fellow accountants.

With regard to the Proposed Part 10 of the ISA for LCE, we have the following comments for your consideration.

Prohibition on the Use of Component Auditors

We noted that component auditors are more often used in more complex groups, as a result, IAASB was of the view that prohibiting the use of component auditors was consistent with the nature and circumstances of a typical LCE that the proposed standard is intended to be designed for. However, component auditors are also commonly used by holding company auditors for simple non-complex groups. For instance, a Hong Kong holding company with two subsidiaries set up in Mainland China and Vietnam respectively. The use of quality component auditors shall largely increase the efficiency and effectiveness of the group audits owing to the travelling distance as well as the local component auditor's knowledge on the environment, law and regulations, languages and etc. of that jurisdiction.



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Prohibition on the Use of Component Auditors – Cont'd

We are of the view that once the group is defined as non-complex group, the choice of using component auditors should not be ruled out. The basis for the design of the ED of ISA for LCE is to develop a separate standalone standard for an audit of the financial statements of an LCE instead of developing a less complex auditing standards by eliminating complex auditing procedures from the main auditing standards which may, nevertheless, be applicable to LCEs.

With reference to the paragraph 12 regarding the situations where a physical presence is required for a specific audit procedure in an otherwise less complex group, apart from an inventory count or the verification of a physical asset, there are far more examples as mentioned below:

1. Physically obtain bank confirmation request directly from bank;
2. Physical site visits of major customers and/or suppliers;
3. Situation when books and records are compulsorily kept inside a jurisdiction by law (e.g. Mainland China), auditors are required to inspect books and records inside that jurisdiction;

We believe that there are still many examples where a physical presence is required in conducting auditing procedures during a group audit and to develop an exhaustive list of examples may not be practical. In this respect, the partial relief of the use of component auditors may, however, create holding auditors with confusion on whether they could use component auditors under the ISA for LCE. We believe that full relief of the use of component auditors could eliminate this kind of confusion.

Proposed group-specific qualitative characteristics

Access to information or people

We believe that this criteria is a fundamental requirement for group audit but it may not be a relevant factor in determining whether the group is complex or not.

Consolidation Process

1. The requirement on financial information of all entities or business units has been prepared in accordance with the same accounting policies applied to the group financial statements may not be practical when the entities or business units are operated in different jurisdictions with different local accounting requirements. Adjustments made during the consolidation process in this respect should not be seen as a complex consolidation process.



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Proposed group-specific qualitative characteristics -Cont'd

Consolidation Process – Cont'd

2. It is unclear the requirement on no sub-consolidation means no indirectly owned subsidiaries are allowed for an ultimate holding company or not. If so, it may be a stringent requirement as it is not uncommon for a simple group to involve one more holding company in the second layer which hold all operating subsidiaries in the third layer.

Should you require any explanations and discussions, please do not hesitate to contact Mr. Kenneth Lau, the Chairman of the Accounting and Auditing Standards Committee.

Yours faithfully,

WU Chun Sing, Parco
President

LAU Kwok Hung, Kenneth
Chairman of the Accounting and Auditing
Standards Committee