

General Comments on Proposed ISA for LCE

Response:

As the basic core requirements, of an audit that enables the auditor to provide reasonable assurance, are the same for an LCE as in any other audit, the ISAs should be built on this basis. Hence the ISAs should be structured on the basis of 'components' that apply to any audit and other 'components' (or 'additional modules' as discussed in §138 of EM) that can be used only if relevant in the specific audit. This structure could address the issues discussed and concerns of the stakeholders about the length, complexity, and understandability of the ISAs and their application, not only to audits of LCEs but also for all audits. The total rewriting of the ISAs on the basis of the principles, 'building blocks', 'think less complex first', or similar basis would clearly be the best way forward. We acknowledge however that this is not a realistic prospect in the short or medium-term and we agree that the initiatives described in § 16 of EM, to address these issues, were both positive and necessary.

The proposed standard could also be positive, but there are many areas of concern and obstacles, that could not only undermine the proposed standard and also make it useless. Especially the reference in the audit report that "the audit was conducted in accordance with ISA for LCE", gives a message of a lower level of quality, together with the difficulties and the cost from changing from ISAs for LCE to ISAs and back and the lack of flexibility to 'top-up', would make the standard not effective.

Specific Questions

Section 4A – Overarching Positioning of ED-ISA for LCE

1. Views are sought on:

(a) The standalone nature of the proposed standard, including detailing any areas of concern in applying the proposed standard, or possible obstacles that may impair this approach?

Response:

In Greece, as in the rest of the world, Smaller, less complex entities (LCEs) make a critical contribution to the economy and account for the great majority of audits.

At the same time, as IAASB has noted, the increasingly complex structures and transactions, needed to be addressed through the development and revision of the International Standards on Auditing (ISAs). In addition, many revisions derived as a result of audit inspections and recent high-profile corporate failures, more commonly associated with more complex entities. As mentioned in the explanatory memorandum (EM), these revisions had the objective of making the International Standards more relevant in the evolving environment, and are intended to support the consistent performance of quality audits. However, with these revisions, there has been growing concern about the length, complexity, and understandability of these standards and their application not only to audits of LCEs but also for all audits.

Therefore, I agree with many stakeholders that have questioned whether the ISAs remain relevant and can be applied in a cost-effective manner to all audits. Also, as highlighted in ED, many of the issues and challenges being experienced in audits of LCEs were not unique to LCEs, but could also apply more broadly to other audits. In particular, issues in applying the ISAs related to complexity, understandability, scalability, and proportionality are present for all audits. Hence a total rewriting of the ISAs on the basis of the principles, 'building blocks', 'think less complex first' or similar basis, would clearly be the best way forward. The ISAs should be structured on the basis of 'components' that apply to any audit and other 'components' (or 'additional modules' as discussed in §138 of EM) that can be used only if relevant in the specific audit. This structure could address the issues discussed above. This is not though a realistic prospect in the short or medium term.

The standalone nature of the proposed standard could also be positive, but there are many areas of concern regarding the proposed standard:

- The reference in the Audit Report that the audit was conducted in accordance with ISA for LCE is totally misleading and unjustified. This reference can lead the user to think that the audit is not providing the

same level of assurance as to the ISAs. Also, could lead to the false perception that the auditor has not gathered the same amount and quality of documentation and has not made the same effort, which is not true, since both standards provide the same assurance.

- The lack of flexibility on the authority of the standard. As mentioned in §54 of EM even a smaller, 'straightforward' listed entity could be included within the scope of the proposed standard if the judgment on the decision about whether the standard is appropriate to use for an audit would be made based on complexity only.
- The lack of flexibility in the cases that the entity meets the definition of a Less-Complex Entity in one year but not in the subsequent year, especially regarding the additional documentation needed in opening balances in the course of an audit under ISAs. This is also unjustified since both standards provide the same assurance.
- The prohibition to «top-up» where necessary. That is, if there is a circumstance that has not been contemplated in the design of ED-ISA for LCE as addressed in the Authority of the proposed standard (Part A), relevant ISA requirements cannot be used to "top-up" ED-ISA for LCE in order to address the circumstance.
- The prohibition to include group audits based on the complexity of the group.

The above obstacles may not only impair this approach but would also undermine the proposed standard and make it useless.

Especially the reference in the audit report that "the audit was conducted in accordance with ISA for LCE", gives a message of a lower level of quality, and together with the difficulties and cost from changing from ISAs for LCE to ISAs and back and the lack of flexibility would make the standard not effective.

With the current draft, of ISA for LCE, is more cost-effective to design a tool, as many firms have already done, that will enable the auditors to perform the audit of an LCE with the existing ISAs.

(b) The title of the proposed standard.

Response:

No comment on the title but some concerns on the classification of the standard within the suite of International Standards as discussed in §36 of EM. Considering the fact that whether an auditor performs the audit of an LCE, using the proposed standard for LCE or the ISAs, will end up performing the same audit, gathering the same documentation, and providing the same assurance, is difficult to understand IAASB's concerns around possible confusion that may result from a new auditing standard with a similar name to the ISAs and from adding ED-ISA for LCE to the existing ISAs (for example by creating a 900-series).

The connection with IFRS for SMEs in §38 is, in our opinion, irrelevant. In this case, if you use different accounting standards, you can end up with a different set of financial statements, which is not the case with ISAs and ISAs for LCE. As mentioned in §100-101 the purpose of the ISA for LCE is not to reduce the procedures the auditor is required to perform to support the overall quality of the audit but rather to make the standard easier to understand and apply, as auditors of LCEs will not need to spend time identifying what is applicable and what is not (e.g., as they would need to do if they were using the ISAs), as it should be clearer what the core requirements are, when the nature and circumstances of the entity and the audit are less complex. The auditor would therefore be able to invest more time executing appropriate procedures that more effectively target the risks of material misstatement when appropriately used for an audit of an LCE.

(c) Any other matters related to ED-ISA for LCE as discussed in this section (Section 4A).

Response:

No further comment to add.

2. Do you agree with the proposed conforming amendments to the IAASB Preface (see paragraphs 39-40)? If not, why not, and what further changes may be needed?

Response:

No further comment to add.

Section 4B – Authority of the Standard

3. Views are sought on the Authority (or scope) of ED-ISA for LCE (Part A of the proposed standard). In particular:

(a) Is the Authority as presented implementable? If not, why not?

Response:

As noted above in 1(a) the lack of flexibility on the authority of the standard is not helpful. Judgment on the decision about whether the standard is appropriate to use for an audit should be made based on complexity. Indicators could be used, based on quantitative characteristics (total assets, turnover, and the number of employees) together with qualitative characteristics, such as the complexity of accounting standard used. The above could be used in a jurisdiction to allow using the standard by default, but should not exclude audit of other entities, considering the standard is appropriate to use, based on the complexity. We agree that it is not practicable to set quantitative threshold at global level.

(b) Are there unintended consequences that could arise that the IAASB has not yet considered?

Response:

There are many concerns that the ISA for LCE will falsely be perceived as a lower-quality audit with fewer procedures: See above in 1(a).

(c) Are there specific areas within the Authority that are not clear?

Response:

No comment to add.

(d) Will the Authority, as set out, achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard?

Response:

Since the level of assurance for an audit of a Less-Complex Entity using the Standard for LCE remains always the same, it should not be considered as different compared to the level of assurance provided by all other ISAs, the audit report should have the same form and wording with the existing types of the audit reports, as stated in ISA 700. The reference "...we conducted our audit in accordance with the ISA for LCE" could cause several concerns or confusion to the intended users of the audit report.

Considering the above we believe the reference in the report is not appropriately informing stakeholders about the scoping of the proposed standard but is rather quite misleading. See also 1(a) and 1(b) above.

(e) Is the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions clear and appropriate?

Response:

No comments to be noted. See 3(a)

4. Do you agree with the proposed limitations relating to the use of ED-ISA for LCE? If not, why and what changes (clarifications, additions or other amendments) need to be made? Please distinguish your response between the:

(a) Specific prohibitions; and

(b) Qualitative characteristics.

If you provide comments in relation to the specific prohibitions or qualitative characteristics, it will be helpful to clearly indicate the specific item(s) which your comments relate to and, in the case of additions (completeness), be specific about the item(s) that you believe should be added and your reasons.

Response:

As noted above in 1(a) the lack of flexibility on the authority of the standard is not helpful. Judgment on the decision about whether the standard is appropriate to use for an audit should be made based on complexity.

Indicators could be used, based on quantitative characteristics (total assets, turnover, and the number of employees) together with qualitative characteristics, such as the complexity of accounting standard used. The above could be used in a jurisdiction to allow using the standard by default, but should not exclude audit of other entities, considering the standard is appropriate to use, based on the complexity.

5. Regarding the Authority Supplemental Guide:

(a) Is the guide helpful in understanding the Authority? If not, why not?

Response:

No comments to be noted.

(b) Are there other matters that should be included in the guide?

Response:

No comments to be noted.

6. Are there any other matters related to the Authority that the IAASB should consider as it progresses ED-ISA for LCE to finalization?

Response:

No comments to be noted.

Section 4C – Key Principles Used in Developing ED-ISA for LCE

7. Views are sought on the key principles used in developing ED-ISA for LCE as set out in this Section 4C. Please structure your response as follows:

(a) The approach to how the ISA requirements have been incorporated in the proposed standard (see paragraphs 74-77).

Response:

Key principles used in developing ED-ISA for LCE make sense.

The standard will help the auditor to achieve reasonable assurance by making the standard easier to understand and apply, as auditors of LCEs will not need to spend time identifying what is applicable and what is not (e.g., as they would need to do if they were using the ISAs), as it should be clearer what the core requirements are when the nature and circumstances of the entity and the audit are less complex.

(b) The approach to the objectives of each Part of the proposed standard (see paragraphs 78- 80).

Response:

Nothing to comment.

(c) The principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management (see paragraphs 81-84).

Response:

Nothing to comment. The above principles should apply in the same way as it would in an ISA audit.

(d) The approach to EEM (see paragraphs 85–91) including:

(i) The content of the EEM, including whether it serves the purpose for which it is intended.

(ii) The sufficiency of EEM.

(iii) The way the EEM has been presented within the proposed standard.

Response:

The approach and content of EMM and the way the EEM has been presented make sense. In addition, IAASB should consider issuing a new “Guide to Using ISAs for LCE” to substitute “Guide to Using ISAs in the Audits of SMEs”, which has been very helpful for the auditors.

Section 4D – Overall Design and Structure of ED-ISA for LCE

8. Please provide your views on the overall design and structure of ED-ISA for LCE., including where relevant, on the application of the drafting principles (paragraph 98-101).

Response:

I agree with the overall design and structure of ED-ISA for LCE and the fact that the standard will present the requirements for an audit of an LCE based on the core requirements of the ISAs but drafted and presented in a more understandable and straightforward way, including that the requirements follow the flow of an audit engagement.

I believe that the same design and structure should be used for all ISAs. This standard could evolve to be used as the cornerstone to build in the future a new set of ISAs. As the basic core requirements, of an audit that enables the auditor to provide reasonable assurance, are the same for an LCE as in any other audit, the ISAs should be built on this basis. The ISAs could be structured on the basis of 'components' that apply to any audit and other 'components' (or 'additional modules' as discussed in §138 of EM) that can be used only if relevant in the specific audit. This structure could address the issues discussed in 1(a) about the numerous revisions that resulted in the growing concern about the length, complexity, and understandability of these standards and their application not only to audits of LCEs but also for all audits. We believe that a total rewriting of the ISAs on the basis of the principles, 'building blocks', 'think less complex first' or similar basis, is both necessary and urgent.

Section 4E – Content of ED-ISA for LCE

9. Please provide your views on the content of each of Parts 1 through 8 of ED-ISA for LCE, including the completeness of each part. In responding to this question, please distinguish your comments by using a subheading for each of the Parts of the proposed standard.

Response:

No comment to add at this stage.

10. For Part 9, do you agree with the approach taken in ED-ISA for LCE with regard to auditor reporting requirements, including:

- (a) The presentation, content and completeness of Part 9.
- (b) The approach to include a specified format and content of an unmodified auditor's report as a requirement?
- (c) The approach to providing example auditor's reports in the Reporting Supplemental Guide.

Response:

Since the level of assurance for an Audit of a Less-Complex Entity using the Standard under discussion should not be considered as different compared to the level of assurance provided by all other ISAs, the audit report should have the same form and wording as the existing types of the audit report as stated in ISA 700. The reference "...we conducted our audit in accordance with the ISA for LCE" could cause several concerns and confusion to the intended users of the financial statements and our audit report.

As discussed above in 1(a) the reference gives the false message of a lower level of quality and together with the difficulties and cost from changing from ISAs for LCE to ISAs and back and the lack of flexibility to top-up, where necessary, would make the standard not effective. It will only be used as a guide, how to perform an audit for an LCE, but with the existing ISAs.

11. With regard to the Reporting Supplemental Guide:

- (a) Is the support material helpful, and if not, why not?

Response:

Yes it is helpful.

- (b) Are there any other matters that should be included in relation to reporting?

Response:

No comments to add.

12. Are there any areas within Parts 1–9 of the proposed standard where, in your view, the standard can be improved? If so, provide your reasons and describe any such improvements. It will be helpful if you clearly indicate the specific Part(s) which your comments relate to.

Response:

No comments to be mentioned at this stage.

Section 4F – Other Matters

13. Please provide your views on transitioning:

- (a) Are there any aspects of the proposed standard, further to what has been described above, that may create challenges for transitioning to the ISAs

Response:

As discussed in question 1(a) the lack of flexibility and the prohibition to "top-up" will create challenges for transitioning to and from the ISAs for LCE, which is almost impossible to overcome. Unfortunately in the case of accounting estimates in an LCE, as mentioned in §132 of EM, will be quite common. These would be

resolved if the “top-up” was permitted and the reference “...we conducted our audit in accordance with the ISA for LCE” was removed, since the level of assurance of an Audit of a Less-Complex Entity using the Standard under discussion is the same as in the ISAs.

Also the lack of flexibility, in the cases that the entity meets the definition of a Less-Complex Entity in one year but not in the subsequent year, especially regarding the additional documentation needed in opening balances, is unjustified since both standards provide the same assurance.

(b) What support materials would assist in addressing these challenges?

Response:

See above under (a).

14. Do you agree with the proposed approach to the future updates and maintenance of the Standard and related supplemental guidance?

Response:

Yes I agree.

15. For any subsequent revisions to the standard once effective, should early adoption be allowed? If not, why not?

Response:

Yes, an early adoption should be allowed.

16. Should a separate Part on the ISA-800 series be included within ED-ISA for LCE? Please provide reasons for your response.

Response:

No comments.

17. In your view, would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion and for which the proposed standard has been developed? If not, why not. Please structure your comments to this question as follows:

(a) Whether the proposed standard can, and will, be used in your jurisdiction.

Response:

In Greece, in my view, a Standard for LCE would be very welcomed and would meet the needs of users and other stakeholders and could be used, given the following:

a. The standard is flexible as discussed in question 1(a) and permits the “top-up”

b. The audit report should have the same form and wording as the existing types of audit reports as stated in ISA 700

The accounting law classifies entities into 4 categories (large, medium, small, and very small) based on quantitative characteristics (total assets, turnover, and the number of employees). All entities other than PIEs can choose for their Financial Reporting the Greece Accounting Standard (GAS) or IFRS. The vast majority of the entities that use GAS could be classified as LCE especially if the “top-up” was permitted. The above could be used in our jurisdiction as indicators to allow using the standard in small and very small entities, that use GAS (which are similar to IFRS but less complex), by default, but should not exclude audit of other entities too, considering that the standard is appropriate to use, based on their complexity.

(b) Whether the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.

Response:

See above under (a)

(c) Whether there are aspects of the proposed standard that may create challenges for implementation (if so, how such challenges may be addressed).

Response:

YES. See above (response to questions 1, 3, 13 etc.)

18. Are there any other matters related to ED-ISA for LCE that the IAASB should consider as it progresses the proposed standard to finalization?

Response:

See above.

Section 4G - Approach to Consultation and Finalization

19. What support and guidance would be useful when implementing the proposed standard?

Response:

IAASB should consider issuing a new “Guide to Using ISAs for LCE” to substitute “Guide to Using ISAs in the Audits of SMEs”, which have been very helpful for the auditors.

20. Translations—recognizing that many respondents may intend to translate the final ISA for LCE in their own environments, the IAASB welcomes comment on potential translation issues noted in reviewing ED-ISA for LCE.

Response:

No comments.

21. Effective Date—Recognizing ISA for LCE is a new standard, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning at least 18 months after the approval of a final standard. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA for LCE.

Response:

No comments.

Section 5 – Group Audits

22. The IAASB is looking for views on whether group audits should be excluded from (or included in) the scope of ED-ISA for LCE. Please provide reasons for your answer.

Response:

Group audits should be included in the scope of ED-ISA for LCE. Many non-complex parent entities, with non-complex subsidiaries, would consist a non-complex group in Greece and should be in scope for this Standard.

23. Respondents in public practice are asked to share information about the impact of excluding group audits from the scope of ED-ISA for LCE on the use of the proposed standard. In particular:

(a) Would you use the standard if group audits are excluded? If not, why not?

Response:

Yes, I believe we would use the standard if group audits are excluded. Please also see response to question 17 above.

(b) Approximately what % of the audits within your firm or practice would be group audits that would likely be able to use ED-ISA for LCE (i.e., because it is likely that such group audits could be considered less complex entities for the purpose of the proposed standard) except for the specific exclusion?

Response:

In Greece and in our firm the significant majority of group audits (for non-listed or non-public entities) would be in scope and we would be able to use ISA for LCE. According to the Greek Accounting law that incorporates the EU Directive 2014/56 only the groups that exceed two of the three of the following criteria have the legal obligation to prepare audited consolidated financial statements:

1. Total consolidated assets amounting to 20.000.000 €
2. Total consolidated revenue amounting to 40.000.000 €
3. Average number of employees equal to 250

In my view, most of the other groups that optionally prepare audited consolidated financial statements could be in the scope of this Standard. The groups that have the legal obligation to prepare audited consolidated financial statements, as it is stated above, could also be in scope, based on the complexity of the parent company and the number, the structure, and complexity of the subsidiaries.

(c) What common examples of group structures and circumstances within your practice would be considered a less complex group.

Response:

Many family owned groups would be considered as less complex group.

24. If group audits are to be included in the scope of ED-ISA for LCE, the IAASB is looking for views about how should be done (please provide reasons for your preferred option):

(a) The IAASB establishes a proxy(ies) for complexity for when the proposed standard may be used (“Option 1 - see paragraph 169); or

(b) ED-ISA for LCE sets out qualitative characteristics for complexity specific to groups (Option 2 see paragraph 176), to help users of the proposed standard to determine themselves whether a group would meet the complexity threshold.

Response:

The second option “B” is preferable.

25. Are there other ways that group audits could be incorporated into the scope of the proposed standard that is not reflected in the alternatives described above? For example, are there proxies for complexity other than what is presented in paragraph 169 that the IAASB should consider?

Response:

No comments to add at this stage.

26. If group audits are included in ED- ISA for LCE, how should the relevant requirements be presented within the proposed standard (please provide reasons for your preferred option):

(a) Presenting all requirements pertaining to group audits in a separate Part; or

(b) Presenting the requirements pertaining to group audits within each relevant Part.

Response:

They could be presented in a separate part and within each relevant part as “pop –up”, once the standard is moved into an electronic format.