



WIRTSCHAFTSPRÜFERKAMMER

Körperschaft des  
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### **Stellungnahme zum Entwurf *Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews***

Die WPK hat mit Schreiben vom 1. Juli 2019 gegenüber dem International Auditing and Assurance Standards Board (IAASB) zum Entwurf *Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews* wie nachfolgend wiedergegeben Stellung genommen.

We are pleased to take this opportunity to comment the Exposure Draft “Quality Management at the Firm and Engagement Level, Including Engagement Quality Reviews”.

Please find our comments below.

#### **General Remarks:**

- We **appreciate the significant amount** of work that has been undertaken by the IAASB in developing the three projects and support the objective of enhancing quality management (QM). However, we understand that the expected improvements to quality have not been compared to the potential additional implementation costs to be incurred by the firms (**Cost/Benefit Analysis**).
- We **basically support the new QM approach** which focusses on how audit firms manage their risks to quality. However we would ask the IAASB to develop a **mapping of extant requirements to the new requirements**.
- The proposed ISQM 1, ISQM 2 and ED-220 are very important standards. They will presumably **shape the quality management (QM) for the next decades** and the quality

systems in audit firms. Therefore it is crucial that the standards are operable for firms of all sizes irrespective the nature of engagements they perform.

- We are concerned as to whether all audit firms distinguish what **specific adjustments** to their existing quality system are necessary to comply with the relevant requirements. It has to be taken into account that the new approach has to build on the existing quality system and that adjustments have to be made during the current business.
- We see that the proposed implementation horizon of **18 months is too short**. During implementing a new QM approach the firms have to cope with the implementation of ISA 315.
- We are in addition concerned that from the **scalability perspective** the identification and assessment of quality risks is very prescriptive and leaves only little room for flexibility in the application. The approach is therefore challenging to apply. Therefore supporting material for implementation (like an update of the ISQC 1 guidance published by the SMPC or an IAASB staff Q&A's) would be beneficial before the standards become effective.

### **Overall Questions**

**1) Do you support the approach and rationale for the proposed implementation period of approximately 18 months after the approval of the three standards by the Public Interest Oversight Board? If not, what is an appropriate implementation period?**

The Board is proposing an implementation period of 18 months after the PIOB's approval. We understand the rationale to address the issue of public interest. However, 18 months is in our view **too short** given the extent of the fundamental changes. Unlike the changes or modifications on other standards, the changes resulting from the new **Quality Management Approach** are far reaching and pertain the entire audit firm. A very careful analysis must be done before the Quality Management Approach can be implemented by the audit firm.

Even the IAASB acknowledges that a rushed implementation may **exacerbate risks to quality**, lead to increased inspection findings, and would be inconsistent with the objectives of the IAASB's project to enhance its quality management standards. Therefore we would strongly urge the IAASB to extend the implementation period at least by further 12 months.

A follow-up problem arises for the National Standards-Setters due to the fact that several provisions of extant ISQC 1 have a direct impact on the **German Professional Charter for Profes-**

**sional Accountants in Public Practice** (BS WP/vBP). The needs for changes must be carefully analysed here as well.

In addition, we expect that audit firms will struggle with the particular challenges of **implementing the ISA 315** and fear that this will result in overlapping time. This will lead a double burden for the specialist in the risk management and methodology departments.

***2) In order to support implementation of the standards in accordance with the IAASB's proposed effective date, what implementation materials would be most helpful, in particular for SMPs?***

The range of the audit - profession is very wide in Germany. Our more than 21,000 statutory members range from sole practitioners to large global audit firms. All are subject to German and international professional law. In 2018 around 89 per cent of the monitored external peer reviews were completed without any measures by the Commission on Quality Assurance (KfQK) which is responsible for the quality assurance system within WPK.

The Standards on Quality Management must be applicable for all of the firms irrespective the kind of work they conduct. We would like to point out that only a small fraction of our members conduct audits of Public Interest Entities (PIE) at all. There are more than 3,200 audit practices in Germany entitled to conduct statutory audits. Only 71 of them conduct audits of Public Interest Entities (PIE). Annually round about 45,000 statutory audits of financial statements are conducted in Germany, thereof round about 1,000 statutory audits of PIEs. The vast majority of audits are audits on non-PIE.

We are a little concerned that the prospective International Standard on Quality Management 1 (ISQM 1), International Standard on Quality Management 2 (ISQM 2) and International Standard on Auditing 220 (Revised) will lead to additional requirements resulting from extensive quality objectives.

Therefore we would ask the IAASB to provide non-authoritative guidance on applying these Standards. This guideline should contain a list of scaling possibilities and describe the Quality Management Approach for the simplest conceivable approach (minimum requirements).

Moreover we would ask the IAASB to develop a **mapping of extant requirements to the new requirements in ED-ISQM 1, ED-ISQM 2 and ED-220**.

***General Questions***

***(a) Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the International Standards, the IAASB invites respondents from these nations to comment on the proposals, in particular, on any foreseeable difficulties in applying it in a developing nation environment.***

n/a

***(b) Public Sector—The IAASB welcomes input from public sector auditors on how the proposed standards affect engagements in the public sector, particularly regarding whether there are potential concerns about the applicability of the proposals to the structure and governance arrangements of public sector auditors.***

n/a

***(c) Translations—Recognizing that many respondents may intend to translate the final ISQMs and ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed standards.***

n/a

We would like to thank you for the opportunity to comment on the proposed drafts and hope that you will find our comments useful. We would be delighted to answer any further questions that you may have.

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