



WIRTSCHAFTSPRÜFERKAMMER

Körperschaft des
öffentlichen Rechts

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Stellungnahme zu den IAASB-Vorschlägen zur Verbesserung des Bestätigungsvermerks

Die Wirtschaftsprüferkammer hat mit Schreiben vom **9. Oktober 2012** gegenüber der International Auditing and Assurance Standards Board (IAASB) zu dessen Vorschlägen zur Verbesserung des Bestätigungsvermerks („Improving the Auditor’s Report“) wie nachfolgend wiedergegeben Stellung genommen:

We are pleased to take this opportunity to participate in the above-mentioned invitation to comment on the IAASB project “Improving the Auditor’s Report”. Our remarks are as follows:

Overall Considerations

1. *Overall, do you believe the IAASB’s suggested improvements sufficiently enhance the relevance and informational value of the auditor’s report, in view of possible impediments (including costs)? Why or why not?*
 - Basically, the WPK welcomes the suggested improvements to the Auditor’s report. With reference to individual points of criticism please refer to questions 3 following.
 - For all points, the content and scope should be assessed with regard to a cost-benefit analysis. This is especially true for the Auditor’s Commentary.
 - In spite of the required additional information compared to the current version of the auditor’s report the individual statements in the auditor’s report should be clear and concise and should not contradict each other. The auditor’s report should not be overburdened by extensive detailed information and therefore confusing and incomprehensible to the financial statement users.

2. *Are there other alternatives to improve the auditor's report, or auditor reporting more broadly, that should be further considered by the IAASB, either alone or in coordination with others? Please explain your answer.*

- As part of the reporting on the financial statements a mandatory introduction of a management report in accordance with § 289 HGB, where risks and opportunities of the company are to be described and which has to be included in the audit and in the reporting of the auditor might provide a much larger amount of information to the users of the financial statements instead of a limited presentation of selected details in the audit report.

German law requires a management report for large companies according to § 264 paragraph 1 HGB.

Inter alia the management report requires the entity to assess and report on its ability to address going concern and to create a going concern assumption. The auditor has to appraise this self-assessment of the company.

Auditor Commentary

3. *Do you believe the concept of Auditor's Commentary is an appropriate response to the call for auditors to provide more information to users through the auditor's report? Why or why not? (See paragraphs 35–64.)*

- Basically, the response to the demand for more information in the auditor's report is welcome.
- However it should be distinguished which information is needed:
 - Information about the subject of the audit
 - This information should be included in the notes or in the management report. Moreover, in principle, the management or the supervisory board would be the appropriate contact person.
 - This information should not be addressed by the auditor in the audit report. The idea of the auditor as "Navigator" of the financial statements is rejected.
 - Information about the audit itself:

- These information may and shall be provided by the auditor in order to enable the users of the financial statements to gain a better understanding about the audit.
- However, the question is, how the additional information in the auditor's report be considered by the individual addressees.
 - If only a small number or even no facts are considered as "most important" by the auditor, does this imply the financial statements to be of a "better quality" than a financial statement with many comments?
 - Chances are that this additional information may be viewed as limiting the audit opinion.
 - Will the users rely solely on this information in the auditor's report and consider no longer notes and a (potential) management report?

4. *Do you agree that the matters to be addressed in Auditor Commentary should be left to the judgment of the auditor, with guidance in the standards to inform the auditor's judgment? Why or why not? If not, what do you believe should be done to further facilitate the auditor's decision-making process in selecting the matters to include in Auditor's Commentary? (See paragraphs 43–50.)*

- Basically, the decision as to what is included in the Auditor's Commentary, should be in the discretion of the auditor.
- However, it is a subjective assessment of the auditor of what might be most important for the addressee. This assessment may differ from auditor to auditor. Against this background a guidance would be useful, since the term "matters that are, in the auditor's judgment, likely to be most important to users' understanding of the financial statement or audit" is too vague.
- From the perspective of the auditor it may be difficult to assess what additional information is most important for the users of the auditor's report. Especially when taking into consideration that there are different kinds of users with a different focus and a different level of knowledge (eg, shareholders, boards of directors, creditors of all kinds, regulators, employees, customers ...). Potentially the auditor's risk of liability may increase, if the auditor does not consider an issue as "most important" in the Auditor's Commentary in the first place, but this later turns out to be "most important".

- Furthermore, the auditor has to consider issues of confidentiality. Basically, the auditor report should provide additional information to the users of the financial statements. Additional information regarding the subject of the audit can only be given after consultation with the client. To what extent an exemption from the confidentiality obligation with the client can be arranged is questionable. Please refer to our answer to question 3 on the fundamental rejection of additional information about the subject of the audit.
- A replication of issues that are already described in the notes or in a potential management report should be avoided.
- We recommend the use of the concept of so-called "significant risks" (including fraud risks, provided they are not classified by the auditor as particularly low), on which the risk-based audit approach is based, as basis for identifying matters to be addressed in the Auditor's Commentary. In addition, the focus of the audit could be placed on issues identified by the supervisory board of the entity or by external regulators. In this context, "significant risks" might be named and the applied audit procedures and results be presented concisely.

5. *Do the illustrative examples of Auditor Commentary have the informational or decision-making value users seek? Why or why not? If not, what aspects are not valuable, or what is missing? Specifically, what are your views about including a description of audit procedures and related results in Auditor Commentary? (See paragraphs 58–61.)*

- The examples at first show clearly how and to what extent the IAASB pictures a potential Auditor's Commentary.
- The first two examples, however, seem superfluous as they merely refer to the Notes and no additional information is included. In addition, the users of the financial statements could ask why exactly these two notes were selected and if the audit opinion is to be limited with reference to these two points.
- Examples three and four, which also contains a description of the audit procedures appear useful to show the users, which positions the auditor considers to be material and tainted with "significant risks". The naming of the result seems superfluous, if the auditor has not reached any conclusions. More interesting are results with findings that did not lead to any limitation of the audit opinion. To what extent this will be accepted by the client, however, is questionable.

- The last example for the participation of other –external- auditors does not seem worthwhile, since eg in Germany the commissioned auditor is responsible for the annual audit alone and therefore has to sign the audit report. Thereafter, if from the collaboration with the other auditors do not result any special risks, a separate mention is not necessary.

6. *What are the implications for the financial reporting process of including Auditor Commentary in the auditor's report, including implications for the roles of management and those charged with governance (TCWG), the timing of financial statements, and costs? (See paragraphs 38 and 62–64.)*

- Increased coordination requirements for the auditor himself (possibly with obtaining legal advice) and associated higher costs.
- Increased need for coordination and discussion with the client, as the client is possibly interested, to include as little information as possible in the Auditor's Commentary, and to keep associated costs as small as possible. In addition, by coordination with the client statements may be "flushed soft", so that the intended statement is no longer clear for the users or standard phrases reduce the information value of the audit report.

7. *Do you agree that providing Auditor Commentary for certain audits (e.g., audits of public interest entities (PIEs)), and leaving its inclusion to the discretion of the auditor for other audits is appropriate? Why or why not? If not, what other criteria might be used for determining the audits for which Auditor Commentary should be provided? (See paragraphs 51–56.)*

- The Auditor's Commentary should be mandatory for the audit of all companies. Otherwise the users of the financial statements may get the rather confusing impression of a "two-tier test", which means that the audit of PIE is more "important" (so here supplementary observations need to be made) than the audit of non-PIE.
- However, it is likely that an audit of non-PIE is encountered with less complex features or special risks. And thus the question emerges as to the evaluation of the amount of additional information given in the Auditor's Commentary by the users of the financial statements (see answer to question 3).

Going Concern/Other Information

8. *What are your views on the value and impediments of the suggested auditor statements related to **going concern**, which address the appropriateness of management's use of the going concern assumption and whether material uncertainties have been identified? Do you believe these statements provide useful information and are appropriate? Why or why not? (See paragraphs 24–34.)*

- Considering the fact that users expect a precise statement on the going concern assumption in the audit report, it seems reasonable, in our view, that such a statement will be included in the audit report.
- Given the fact that under German law the preparation of the financial statements shall be based on the continuation of the company's activities, unless there are legal or factual circumstances that preclude such an assumption, so far the going concern assumption of the management is part of the audit. The proposed statement should therefore not exceed the result of the current audit requirement, respectively such a statement in the auditor's report shall not go beyond the subject of the audit as to the going concern assumption.
- The explicit written confirmation, however, might increase the auditor's liability risks.
- The responsibility of the management of the entity should be included in the "Going Concern" section and not in the section "Respective Responsibilities of Management and the auditor"
- A statement about the actual forecast period for the going concern assumption may be added.
- With regard to the material uncertainties, under German law a reference to the corresponding statement in the management report would be sufficient. If this statement is missing in the management report, German law requires the modification of the audit opinion in connection with an explanation.

9. *What are your views on the value and impediments of including additional information in the auditor's report about the auditor's judgments and processes to support the auditor's statement that **no material uncertainties** have been identified? (See paragraphs 30–31.)*

- The IAASB's proposal refers to "situations where no material uncertainty exists, but certain events or conditions have been identified that may nevertheless cast significant doubt on the entity's ability to continue as a going concern" (note 30). It is unclear what kinds of events are meant, since the auditor has in the course of his audit apparently

come to the conclusion that no material uncertainties exist. With this in mind no statement should be made in the auditor's report, as this could possibly lead to uncertainties on the users' side. In addition, the risk exists that the auditor breaches its confidentiality obligations, provided that such matters are not described elsewhere in the financial statements or management report.

10. *What are your views on the value and impediments of the suggested auditor statement in relation to **other information**? (See paragraphs 65–71.)*

- This section should be deleted as the expectation gap and therefore liability risks for the auditor might be increased unnecessarily.
- The so-called other information are in principle not to be audited, so it does not seem advisable to compare audited information in the financial statements with non-audited other information. The client would not be interested in that deviations are shown in the auditor's report, without an explanation of these deviations. The investigation of the deviations by the auditor would lead to an increased audit effort while no obligation for a statutory audit exists.

Clarifications and Transparency

11. *Do you believe the enhanced descriptions of the responsibilities of management, TCWG, and the auditor in the illustrative auditor's report are helpful to users' understanding of the nature and scope of an audit? Why or why not? Do you have suggestions for other improvements to the description of the auditor's responsibilities? (See paragraphs 81–86.)*

- We think that the description of the responsibilities is reasonable and sufficient in order to clarify the responsibilities of management, the board of supervisors and the external auditors.
- Regarding the shift of the explanations about the responsibilities of the entity's management on going concern, please refer to our answer to question 8.

12. *What are your views on the value and impediments of disclosing the name of the engagement partner? (See paragraphs 72–73.)*

- Under the current Statutory Audit Directive as well as in accordance with the current Draft Directive the audit opinion is to be signed at least by "the statutory auditor (s) carrying out the statutory audit on behalf of the audit firm", if the audit is conducted by an audit firm. The German Professional Charter specifies that this is at least the auditor responsible for performing the audit.
- Since it can be assumed that the "engagement partner" is the auditor responsible for performing the audit, the requirement to give its name is not a new requirement in the EU.

13. *What are your views on the value and impediments of the suggested disclosure regarding the involvement of other auditors? Do you believe that such a disclosure should be included in all relevant circumstances, or left to the auditor's judgment as part of Auditor Commentary? (See paragraphs 77–80.)*

- Please refer to our answer to question 5 (last bullet point).

14. *What are your views on explicitly allowing the standardized material describing the auditor's responsibilities to be relocated to a website of the appropriate authority, or to an appendix to the auditor's report? (See paragraphs 83–84.)*

- The statements on the responsibilities of the auditor are very detailed, but we consider the shifting of this information to other media as critical, since the information belong to the particular audit report, should be fixed permanently to it and must not be changeable.

Form and Structure

15. *What are your views on whether the IAASB's suggested structure of the illustrative report, including placement of the auditor's opinion and the Auditor Commentary section towards the beginning of the report, gives appropriate emphasis to matters of most importance to users? (See paragraphs 17–20.)*

- The placement of the opinion seems to be a matter of taste. In English-speaking countries, the so-called "bottom line" is placed at the beginning of the audit report. In Germany, the opinion is usually placed at the end.
- Under certain circumstances, the placement of the opinion at the end of the audit report seems reasonable in order to avoid the impression that the following statements after the opinion have a kind of a limiting character to the opinion. Being put at the end of the report, the opinion may be considered to be some kind of a conclusion.
- The opinion itself should identify the full year of the audited financial statements (not just the balance sheet date).
- Moreover, a direct addressing of certain stakeholder in the audit report seems – at least for statutory audits – redundant, since the report is published and thus available to the general public. Such addressing is done in Germany only with voluntary audits.

16. *What are your views regarding the need for global consistency in auditors' reports when ISAs, or national auditing standards that incorporate or are otherwise based on ISAs, are used? (See paragraphs 21–23 and 87–90.)*

- Against the background of multinational companies a certain consistency of the audit opinions is considered important. This should be achieved by at least the headlines, the order of the components of the audit report and the placement of the Opinion

17. *What are your views as to whether the IAASB should mandate the ordering of items in a manner similar to that shown in the illustrative report, unless law or regulation require otherwise? Would this provide sufficient flexibility to accommodate national reporting requirements or practices? (See paragraph 17 and Appendix 4.)*

- We approve the specification of a particular order of the components of the audit report, unless this is contrary to national laws and regulations. Thereby a comparison is made easier (see also answer to question 17).

18. In your view, are the IAASB's suggested improvements appropriate for entities of all sizes and in both the public and private sectors? What considerations specific to audits of small- and medium-sized entities (SMEs) and public sector entities should the IAASB further take into account in approaching its standard-setting proposals? (See paragraphs 91–95.)

- Since from IAASB's point of view the Auditor's Commentary for audit reports on SME audits shall not be mandatory, the other components appear in the light of the above statements applicable for all companies alike.
Please also see our answer to question 7 as to the overall obligation of providing an Auditor Commentary for all kinds of audits.
- Especially for SME the statements on the Auditor's Responsibility should be modified to meet the actual audit circumstances and procedures ("scalable audit").
- Our remarks about higher costs due to additional information relating not only to the Auditor's Commentary, but on any additional information in the auditor's report as compared to the current audit report, please see our answer to question 6. This is particularly true for SMEs.

We hope that our remarks will be taken into consideration in the subsequent course of the proceedings, and we would be delighted to answer any questions you may have.