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Stellungnahme zum Standardentwurf *Proposed International Standard on Quality Management 2*

Die WPK hat mit Schreiben vom 1. Juli 2019 gegenüber dem International Auditing and Assurance Standards Board (IAASB) zum Standardentwurf *Proposed International Standard on Quality Management 2* wie nachfolgend wiedergegeben Stellung genommen.

We are pleased to take this opportunity to comment the Exposure Draft: Proposed International Standard on Quality Management 2.

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 ex-tant 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.

General Remarks:

1) Do you support a separate standard for engagement quality reviews? In particular, do you agree that ED-ISQM 1 should deal with the engagements for which an engagement quality review is to be performed, and ED-ISQM 2 should deal with the remaining aspects of engagement quality reviews?

We agree that an engagement quality review (EQR) is a means to address public perception that quality must be specifically ensured for public interest entities or any other entities required by law to have an EQR.

From a **scalable perspective**, we support a separate standard for EQR. The standard is only applicable to engagements requiring an EQR and therefore ISQM 2 will not be applicable to all engagements a firm performs.

However we do not support a separate standard for engagement quality reviews (EQR) for the following reasons:

- The implementation of the new approach established by ES-ISQM 1 seems to be very complicated and prescriptive, leaving only little flexibility to the firms. This complexity will even more increase due the fact that with ED-ISQM 2 another standard will be established besides ED-ISQM 1. In addition ED-ISQM 2 now comprises elements of extant ISA 220 (requirements and guidance on the performance of an engagement quality review (formerly EQCR) including requirements directed at the engagement quality review-

er). We presume that the **methodological transformation and adoption** of this patchwork into the existing quality systems of the firms will be very challenging.

Therefore we would ask the IAASB to develop a mapping of extant requirements to the new requirements in ED-ISQM 2.

- We would like to raise the question if the requirements of the 3 proposed standards International Standard on Quality Management 1 (ISQM 1), International Standard on Quality Management 2 (ISQM 2) and International Standard on Auditing 220 (Revised) should be included in one single Standard on Quality Management.
- By creating an own standard for EQR the role of an **EQR is overemphasized** to ensure quality for engagements. An EQR is only one possible response to quality risks for engagements. It is not necessarily the most appropriate or most effective response to (internal) quality risks in all circumstances.
- The **engagement partner is responsible** for quality at the engagement level. By overemphasizing the role of the EQR, there is a risk of diluting this responsibility of the engagement partner.

We have not seen that the IAASB compared the expected improvements to quality to the potential additional implementation costs to be incurred by the firms (**Cost/Benefit Analysis**) though it is essential before further steps are taken.

2) Are the linkages between the requirements for engagement quality reviews in ED-ISQM 1 and ED-ISQM 2 clear?

The linkages are sufficiently clear.

3) Do you support the change from “engagement quality control review/reviewer” to “engagement quality review/reviewer?” Will there be any adverse consequences of changing the terminology in respondents’ jurisdictions?

We support the changes in terminology to reflect the new quality management approach.

However the **substantial differences** between the requirements regarding engagement quality control review/reviewer in extant ISQC 1 and the requirements regarding engagement quality review/reviewer in proposed ISQM 2 are **not clear at a glance**.

Nearly all audit firms have established a quality system during the last years. We assume that most firms tend to develop and evolve their existing quality system further, instead of establishing a new system. Given that, the IAASB should clarify what is new and why it is better. (e.g. guidance, Q&A's).

National Standard Setter, Regulators etc. will need to revise their national legislations and other regulations to reflect this change of terminology.

Regarding the time frame we explained to the over-arching explanatory memorandum that the proposed **implementation period of 18 months is too short.**

4) Do you support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer as described in paragraphs 16 and 17, respectively, of ED-ISQM 2?

We basically support the requirements for eligibility to be appointed as an engagement quality reviewer or an assistant to the engagement quality reviewer.

However, these requirements should be **more flexible** to accommodate the workforce capacities of all firms, even those with relatively small pool of individuals with both the seniority and experience to act as engagement partner and engagement quality reviewer. Some firms are reluctant towards the use of external third parties due to additional costs that penalize SMPs and their clients. Some firms even have mistrust of external third parties because they are in some ways competing. The flexible approach would be preferable for these reasons.

(a) What are your views on the need for the guidance in proposed ISQM 2 regarding a “cooling-off” period for that individual before being able to act as the engagement quality reviewer?

Provisions or guidance regarding the cooling off **should only be allocated in the IESBA Code of Ethics corresponding to the mandate of IESBA.** A repetition of provisions or guidance would not have positive impact on audit quality. If the guidance regarding the cooling off would be in line with the IESBA Code of Ethics no additional guidance is deemed necessary. Otherwise it would confuse the individual, the oversight and the public interest.

(b) If you support such guidance, do you agree that it should be located in proposed ISQM 2 as opposed to the IESBA Code?

Assurance matters should be included in the IAASB Handbook and ethical matters should be in the IESBA Handbook. Repetition should be avoided. Cross referencing and aligning the terminologies is of high relevance and importance.

5) Do you agree with the requirements relating to the nature, timing and extent of the engagement quality reviewer's procedures? Are the responsibilities of the engagement quality reviewer appropriate given the revised responsibilities of the engagement partner in proposed ISA 220 (Revised)?

The requirements relating to the nature, timing and extent of the engagement quality reviewer's procedures **increased significantly** compared to the provisions in extant ISQC 1 where the relating provisions are embedded into the requirements of the Engagement Performance.

Regarding the nature of the procedures of an EQR mentioned in Para 22 we are not convinced whether **all** of them shall necessarily be performed or whether selected procedures are sufficient. EQR procedures should always focus on the underlying risks. If for instance an EQR shall be performed due to **fraud risks** regarding the revenue recognition the focus of the ECQ should lie on the discussion of significant matters with the engagement partner and other members of the engagement team and on the review of selected engagement documentation. If a **going concern** risk demands specific experience in this area the EQR should focus on the work performed in this aspect rather than reviewing other issues that may not be considered significant.

According to Para 22 (b) the engagement quality reviewer shall discuss **significant matters** with the engagement partner and, if applicable, other members of the engagement team. According to Para 22 (d) he shall however review selected engagement documentation that supports the **significant judgments** made by the engagement team and the conclusions reached thereon.

Both concepts are used without adequate consideration on how they relate to each other. The interconnection between "significant matters" and "significant judgments" should be elaborated and the term "significant judgment" should be defined.

6) Do you agree that the engagement quality reviewer's evaluation of the engagement team's significant judgments includes evaluating the engagement team's exercise of professional skepticism? Do you believe that ED-ISQM 2 should further address the exercise of professional skepticism by the engagement quality reviewer? If so, what suggestions do you have in that regard?

We agree that the engagement quality reviewer's evaluation of the judgments includes the evaluation of the exercise of professional skepticism. Some examples would be helpful.

The exercise of professional skepticism by the engagement quality reviewer is sufficiently addressed.

7) Do you agree with the enhanced documentation requirements?

We agree that documentation has to be sufficient to enable an experienced practitioner to understand the nature, timing and extent of the engagement quality review procedures performed. However, we would like to request for IAASB to provide **more guidance** (e.g. staff publication) about the form, content and extent of the documentation of the engagement quality review to prevent excessive expectations regarding the documentation.

8) Are the requirements for engagement quality reviews in ED-ISQM 2 scalable for firms of varying size and complexity? If not, what else can be done to improve scalability?

We appreciate the Appendix on page 14 and 15 illustrating the scalability for firms of different sizes and for engagements where nature and circumstances differ. Scalability is in our view less relevant for an EQR which basically applies for audits of listed entities or entities that are of significant public interest. Nevertheless even ISQM 2 needs to be scalable because some very small public interest entities in Germany / Europe require an audit of their financial statements and therefore require applying ISQM 2.

We are concerned that ED-ISQM 2 is **not adequately scalable**. Especially for very small public interest entities or non-listed entities with specific risks a scalable approach would be necessary.

We would like to thank you for the opportunity to comment on the proposed draft 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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