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Stellungnahme im Rahmen der IAASB-Konsultation *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*

Die WPK hat mit Schreiben vom 13. Mai 2016 gegenüber dem International Auditing and Assurance Standards Board (IAASB) im Rahmen der Konsultation *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits* wie nachfolgend wiedergegeben Stellung genommen.

The Wirtschaftsprüferkammer (WPK) is pleased to take this opportunity to comment on the above mentioned Invitation to Comment (ITC) and the identified issues and possible actions to address the issues regarding the three priority topic areas. We would like to give some general remarks first and provide you with our comments to each of the topic areas subsequently without answering the more than one hundred questions separately.

General Comments

We support IAASB's intention to contemplate about enhancing audit quality and we are broadly supportive of many of the proposals in the ITC. We furthermore welcome the involvement of interested stakeholders at an early stage into these considerations.

The focus on the three topic areas professional skepticism, quality control and group audits appear in our opinion appropriate, since on the one hand they influence audit quality to a good deal. On the other hand they have a great impact on the external perception of the profession.

Regarding the comprehensive details to each topic area and the possible related actions to be addressed proposed changes to the ISAs should not become too detailed and manifold. IAASB's principle-based approach of standard setting must be maintained.

It should also be questioned if some of the concerns raised by third parties are actually deficiencies of the ISAs. Instead some remarks appear to result from possible misunderstandings of the ISA requirements and the consequential inability to derive appropriate audit procedures/ activities.

One example might be the concerns expressed regarding the communication requirements in ISA 600. It is alleged that the requirements are not specific enough in order to result in sufficient and appropriate communication between component auditors and the group engagement team during the planning and performance of a group audit engagement (see note 219).

From our understanding, ISA 600.40-41 in conjunction with ISA 600.A57-A60 regarding communication between group and component auditor require an effective two-way communication and define the minimum content of the communication. However, the appropriate method of communication needs to be determined depending on the individual situation between the two auditors and not by a global standard. Otherwise the standard setting becomes a rules-based approach.

Specific Comments

Professional Skepticism

The description of the concept of professional skepticism (see notes 24-27) seems appropriate albeit somewhat theoretical. This may result in difficulties in its application. We therefore welcome the attempt to clarify the meaning of professional skepticism.

A clear emphasis on professional skepticism in the various ISAs appears prudent to ensure its adequate realization by the auditors. However IAASB correctly underlines that professional skepticism is a mind-set of the auditor, which cannot be generated and verified by the ISAs alone. Therefore ways should be considered to demonstrate that an appropriate level of professional skepticism has been applied by the auditor throughout the audit.

Factors that may inhibit the auditor's application of professional skepticism (see note 31) probably cannot be avoided in all cases. Therefore further considerations should be given to the relationship between these factors and the concept of professional skepticism. Also the suggestion of some stakeholders "that auditors may approach an audit with a skeptical mindset at first, and appropriately identify issues that need attention, but may not always apply professional skepticism in following through with appropriate actions" (see note 31) should be explored in connection with the above mentioned negative influencing factors. It is therefore important to foster ways that audit firms consider whether their current policies and procedures encourage appropriate behaviours by individual auditors.

With regard to the key topic professional skepticism we welcome that IAASB, IESBA and IAESB intend to coordinate and harmonize their activities (see note 37) in order to ensure a common understanding and a consistent approach of the standard setting boards.

Quality Control

Among the issues of quality control we would like to point out the following:

A new quality management approach (see note 50 ff.)

In principle we support the proposal of a new quality management approach. Auditors and audit firms should already be familiar with this approach through their own audit approach and audit procedures.

In our opinion important advantages of this approach are especially the possibility to emphasize the scalability and in the increased use of conditional requirements to focus on a firm's individual circumstances.

Ultimately it should be considered that the implementation and documentation effort for the audit firms, especially SMPs, will not become too excessive.

Quality Control Considerations When Operating as Part of a Network (see note 106 ff.)

In our opinion specific requirements for networks (see note 116) appear not only difficult to define but also impossible since a network has no legal identity. As a result sanctions for non-compliance with specific requirements would be not enforceable.

However we support the proposal to clarify what should be considered and documented by the individual firm as a basis for the reliance on network policies and procedures at the firm level (see note 114). In this context it would be helpful to clarify how and to what extent a member firm can rely on a published transparency report by the network.

Engagement Quality Control Reviews and Engagement Quality Control Reviewers (see note 136 ff.):

From June 17th 2016, the regulation (EU) No 537/2014 comes into force in all EU member states. Article 8 of this regulation also contains provisions for Engagement Quality Control Reviews (EQCR). This is mandatory for all public-interest entities, which by definition includes credit institutions. The regulation defines what at least is to be assessed and documented by the

engagement quality control reviewers. Possible provisions of the IAASB should be in line with the EU requirements and should not go beyond.

In our opinion a separate EQCR standard (see note 144, first point) does not appear necessary as the meaning and purpose of an EQCR was already sufficiently clear so far. The design of a specific EQCR should not be regulated in detail.

Furthermore we do not believe it is necessary to mention in the auditor's report that an EQCR was conducted (see note 144, second point). The need to conduct an EQCR for public interest companies is regulated by law. Furthermore, an EQCR is just one element of the quality control system. Therefore, on the one hand the communication of only the EQCR in the auditor's report may not give a full picture regarding the entire quality assurance system. On the other hand, as you mentioned, it could form a negative view about the quality of an audit that has not been subject to an EQCR.

Additionally we do not support the proposal regarding the communication between the EQC reviewer and those charged with governance of the entity (see note 146). The EQCR is part of the internal (!) quality assurance system. It must retain an instrument of the audit firm and not of the audited firm. The reviewer must remain objective and independent.

We welcome the fact that the problems of SMPs have been recognized and named (see note 140), however in our view possible actions to address these problems are missing.

Monitoring and Remediation (see note 147 ff.):

We welcome the inclusion of internal or external monitoring activities in ISQC 1 (internal and external inspections and other quality reviews that a firm might perform; see note 156). In the end, all deficiencies, regardless of by whom and by what process these deficiencies were identified, must be analyzed by the audit firm and appropriate actions must be taken.

In our view further monitoring activities (pre-issuance, post-issuance; see notes 148 and 156) should not become a mandatory requirement, but presented as further options that can be implemented depending on the risk profile of the audit firm. SMPs should not be additionally burdened.

Group Audits

The topic group audit is comprehensively analyzed by IAASB in the ITC. With regard to the large number of issues and proposed activities over-regulation in this field should be avoided. Too many detailed provisions may reduce the flexibility of the regulation whereby they hardly fit for

various different group constellations and situations, like shared service centers and letterbox entities. We therefore like to emphasize once more the importance of maintaining a principles-based approach of standard-setting.

Acceptance and Continuance of the Group Audit Engagement

We support the proposals related to acceptance and continuance of the group audit engagement. In particular we welcome strengthening the link in ISA 600 to the requirements in ISQC 1 that address the firms' acceptance and continuance policies and procedures, and the requirements in ISA 220 that address the engagement partner's related responsibilities for quality at the engagement level.

Communications between the Group Engagement Team and Component Auditors

We broadly support the proposals regarding enhancing the sufficiency and timeliness of two-way communication between the group engagement and component auditors, to enhance cooperation. In this context we also like to refer to our general comments.

We also welcome the idea of providing specific requirements and application material for component auditors, to give greater emphasis to their role and responsibilities. But we do not see the need for a new separate standard for component auditors. We think it is possible and more transparent to address requirements for the group auditor and component auditors in one single standard.

Identifying and Assessing the Risks of Material Misstatement in a Group Audit

We support the idea that the auditor's understanding of the risks of material misstatement should be increasingly based upon the requirements in ISA 315 as well as that the responses to the assessed risks of material misstatement are to be framed in terms of ISA 330. This better linkage may support group auditors to address risk more effectively.