

27 May 2019

Mr. Willie Botha  
Technical Director  
International Auditing and  
Assurance Standards Board  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York  
NY 10017, USA

submitted electronically through the IAASB website

Institut der Wirtschaftsprüfer  
in Deutschland e. V.

Wirtschaftsprüferhaus  
Tersteegenstraße 14  
40474 Düsseldorf  
Postfach 32 05 80  
40420 Düsseldorf

TELEFONZENTRALE:  
+49 (0) 211 / 45 61 - 0

FAX GESCHÄFTSLEITUNG:  
+49 (0) 211 / 4 54 10 97

INTERNET:  
[www.idw.de](http://www.idw.de)

E-MAIL:  
[info@idw.de](mailto:info@idw.de)

BANKVERBINDUNG:  
Deutsche Bank AG Düsseldorf  
IBAN: DE53 3007 0010 0748 0213 00  
BIC: DEUTDE33XXX  
UST-ID Nummer: DE119353203

**Re.: Consultation Paper: IAASB Proposed Strategy for 2020 – 2023  
and Work Plan for 2020 - 2021**

Dear Willie,

We would like to thank you for the opportunity to provide the IAASB with our comments on the Consultation Paper: “IAASB Proposed Strategy for 2020 – 2023 and Work Plan for 2020 - 2021”, hereinafter referred to as the “consultation paper”.

In addition to the responses to the questions posed in the consultation paper, we have a number of broader strategic issues that we would like to address in this letter.

We note that in the second bullet of “keys to our success” the IAASB states that it wishes to foster confidence in the quality and relevance of its process and standards. In this context, we would like to raise two concerns.

We continue to believe that the IAASB will need to develop a mechanism to address the continued pressure from regulators and audit oversight authorities towards rules-based standards to facilitate formal enforcement, even if this is not necessarily conducive to high-quality audits (this is important because the IAASB will need to be vigilant in resisting inappropriate pressure in this respect). Ultimately, rules-based standards provide greater opportunity for circumvention and for formal, rather than substantive, compliance and will not lead to standards that foster confidence in the long run. Furthermore, complex rules-based standards are becoming increasingly difficult to understand for firms without a large technical department, which endangers global application and the credibility of the IAASB. Rules-based standards are also less robust over

GESCHÄFTSFÜHRENDER VORSTAND:  
Prof. Dr. Klaus-Peter Naumann,  
WP StB, Sprecher des Vorstands;  
Dr. Daniela Kelm, RA LL.M.;  
Melanie Sack, WP StB

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time because they are more susceptible to disruption through changing circumstances. When liaising with audit oversight authorities and inspectors, the IAASB must remain cognizant of the fact that audit inspection groups are just one of many interest groups, but one that often has an interest in reducing the complexity and judgment required to perform their inspection activities by increasing the complexity of the standards through more rules. The increasing complexity of the latest standards and drafts issued by the IAASB (ISA 540, Draft ISA 315, Draft ISQM 1) indicates to us that the IAASB is increasingly losing this battle.

Second, even though we recognize the importance of audits and hence auditing standards, we continue to be concerned that both the strategy and the work program concentrate overly on the audit of historical financial statements and liaison with parties primarily interested in the ISAs. In our view, the IAASB ought to devote a significantly larger proportion of its resources and its time to services other than audit, because audit is a mature service without growth potential, notwithstanding the fact that it remains important for the global economy. Other assurance and related services will have more growth potential, and unless the IAASB is seen to being proactive in this context, it will lose its pre-eminence in this area to other, less-qualified, standard setters that may not actively seek to fulfill the IAASB's public interest mandate. We are pleased to see that the IAASB addressed agreed-upon procedures engagements and extended external reporting in this context, but we believe that other assurance and related services also need to be an area of greater focus.

We would be pleased to provide you with further information if you have any additional questions about our response and would be pleased to be able to discuss our views with you.

Yours truly,



Melanie Sack  
Executive Director



Wolfgang Böhm  
Director Assurance Standards,  
International Affairs

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### Appendix: Comments on Questions Posed in the Consultation Paper

#### 1. Do you agree with Our Goal, Keys to Success and Stakeholder Value Proposition (see page 6), as well as the Environmental Drivers (see page 7)?

We disagree with the **goal** as worded because it suggests that “sustained public trust in financial and other reporting, enhanced by high-quality audits, assurance and related services engagements” can be achieved solely through the delivery of robust global standards. At most, standards can only contribute to such sustained public trust: other parts of the financial reporting supply chain, such as reporting standards setters, practitioners, oversight authorities, regulators and other stakeholders also have a role to play in sustaining that trust. Furthermore, we also disagree with the use of the term “consistent and proper implementation” because the application of standards needs to be adapted to different circumstances (e.g., scalability): rather, what matters is that standards are appropriately applied. For these reasons, we believe that the goal should be rephrased as follows:

“Contribute to sustained public trust in financial and other reporting, enhanced by high-quality audits, assurance and related services engagements, through delivery of robust global standards that are capable of appropriate application in the circumstances.”

We do not see any fundamental flaws in the **keys to success** as described with one exception: we are not convinced that it is the sole responsibility of the IAASB to provide implementation support. Rather it is national standards setters and member bodies, or representative organizations thereof such as IFAC, that have the prime responsibility for implementation support. This would not preclude the IAASB from supporting these organizations in the development of implementation support.

We also agree with the **environmental drivers** as described with four exceptions:

- We believe that the environmental drivers are too focused on audits of financial statements. The increasing demand for assurance and related services beyond audits of financial statements – in particular in relation to IT (cybersecurity, data protection, critical IT infrastructure) – means that the environmental drivers need to take this factor into account.

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- We are also concerned that the issue of increasing complexity is being viewed as a driver for more complex standards. We believe that increases in complexity ought to be a driver for more principles-based standards that stand the test of time, rather than seeking to address every eventuality in standards where such eventualities may change rapidly over time.
- We are very concerned about how the final environmental driver about changing expectations and public confidence in audits is dealt with in the bullet points. Expectations of stakeholders are important, but there are real constraints on meeting expectations that are unreasonable or that may be based on stakeholder misconceptions. Auditors can always “do more”, but “doing more”, is always a public interest consideration in which the benefits of “doing more” must be weighed against the costs that would be incurred: the question is, what proportion of a society’s resources does society wish to apply to audits and why? Furthermore, audits are subject to real inherent limitations beyond any considerations of costs and benefits.
- We recognize that continuing high levels of reported poor results of external inspections exist, but the methodology for analyzing trends in such results over time or in aggregate globally is not robust because audit oversight authorities performing inspections change their benchmarks for deficiencies over time (i.e., they “move the goal posts”) and different oversight authorities use different methodologies and benchmarks in different jurisdictions. The relationship between inspection results and audit failure, if any, is unclear. Consequently, there needs to be a more robust methodology related to the analysis of inspection findings and their relationship to audit failure. We also note that high profile corporate failures are the result of management failures – not audit failures. There is no doubt that audit failures do exist, but they need to be placed into a proper perspective by stakeholders.

## 2. Do you agree with Our Strategy and Focus and Our Strategic Actions for 2020–2023 (see pages 8 to 13)?

We generally agree with the **strategy and focus** as described in the consultation paper, but we have the following comments in this respect. We are concerned with the treatment of Theme C on developing ways to address complexity while maintaining scalability and proportionality. We are

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not convinced that more complex standards are an appropriate response to greater complexity but do believe that the complexity of standards impairs scalability and proportionality. The description of Theme C referring to “make sure our standards are fit-for-purpose for audits of all entities, regardless of their complexity” appears to prejudge the outcome of the IAASB Project on the audit of less-complex entities (LCEs). The IAASB will need to choose: either increase the complexity of standards to deal with more complex entities, but develop separate standards for LCEs, or write less complex, principles-based standards that can be applied in all cases. We believe the latter approach to be appropriate, but standards and exposure drafts recently issued by the IAASB (ISA 540, Draft ISA 315 and Draft ISQM 1) suggest that the IAASB is following the former course, with the concomitant implications for standard setting for audits of LCEs.

We do not agree with Themes A and B in relation to the **strategic actions for 2020-2023**. However, we would also like to comment on Theme D.

In relation to **Theme A**, we are concerned about the IAASB developing its own implementation support for Quality Management, Group Audits, ISA 540 and ISA 315. We believe that if the IAASB needs to prepare detailed implementation support, then the standards lack the clarity needed to have been issued as standards in the first place. It is another matter for the IAASB to contribute to implementation support prepared by national standard setters, IFAC member bodies, or IFAC when these deem such support to be helpful. We believe the IAASB needs to spend more time on “getting the standards right” so that they are principles-based, less complex and more understandable, than immediately afterwards spending time and resources on developing implementation support to mitigate complex, unclear standards.

We are concerned with the possible topics on the IAASB’s radar under the first bullet, fourth item of **Theme B** on page 10. In particular, the expectations about “the role” of auditors in connection with fraud, non-compliance with laws and regulations, and going concern have the potential to cause severe standard setting problems for financial statement audits. We would like to point out that there is only one common denominator among all audits of financial statements worldwide: the fact that the auditor audits the financial statements and gives an opinion on those financial statements. A private sector standard setter, such as the IAASB, can determine what auditors need to do for an ISA audit in relation to fraud, non-compliance with laws and regulation, and going concern to enable the

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auditor to give an audit opinion on the financial statements and report on going concern matters, but a private standard setter such as the IAASB cannot and should not seek to expand the scope of the audit of financial statements to fraud and non-compliance with laws and regulations beyond giving an opinion on those financial statements and reporting on related going concern matters. Additional responsibilities beyond such an opinion and reporting on going concern per se are a matter for local law and regulation or private contract. The IAASB, as a private sector standard setter, should not allow itself to be misused by regulators that seek to have the IAASB expand the scope of the audit – particularly when those regulators were unable to expand the scope of the audit in their own jurisdiction through legislation or regulation.

In relation to the issue of implementing an “interpretation mechanism” as noted on page 12 under **Theme D**, we note that crucial in any such interpretation mechanism is that the Board members have a means of making their views on any draft interpretation known and that the Board can block an interpretation with which it disagrees. Without these safeguards, interpretation mechanisms can (and have) been misused to seek to “correct” requirements in standards that lead to uncomfortable results. We believe that the use of limited scope projects to address only a specific requirement or specific item of application material may represent an alternative to an “interpretation” mechanism.

**3. Do you agree with the IAASB’s proposed Framework for Activities, and the possible nature of such activities (see pages 11 and 12), as set out in Appendix 2 (see pages 19 and 20)?**

We have the following comments on **the possible nature of such activities as set out in Appendix 2**.

With respect to revising and developing standards, the IAASB should also consider the benefits of having a relatively stable platform for practitioners and inspectors over time, rather than having a constant stream of changes that need to be addressed. A further consideration is whether in fact a standard setting project is an appropriate response to deal with the issue that arose from the research phase. To this effect, vague references to the “public interest” are not really helpful as a criterion for decision-making on standard setting. Rather, the IAASB needs to consider the costs and benefits of any changes to society as a whole. In particular, what matters is the appropriate level of quality of assurance and related services

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engagements given the resources that society wishes to expend on those engagements – not only whether changes might make the exercise of regulatory oversight and inspections easier.

With respect to narrow scope maintenance of standards, we refer to our response to Question 2 on Theme B in relation to interpretations: the same considerations apply here.

**4. Do you support the actions that have been identified in our detailed Work Plan for 2020–2021 (see pages 15 and 16)? If not, what other actions do you believe the IAASB should prioritize?**

We believe that the proposed timing for the work plan in a number of cases is overly ambitious if the IAASB wishes to maintain the quality of its standards. In particular, we do not believe it to be conducive to high quality standard setting that the IAASB seek to complete the quality management standards in March 2020 or the exposure draft of ISA 600 in December 2019. We believe the IAASB is allowing itself to be pressured into finalizing long and complex standards too quickly, which reduces the quality and scalability of those standards.

We are also not convinced that it would be appropriate to seek to provide an exposure draft in December 2019 that includes phase 2 of Extended External Reporting (EER) without prior consultation on phase 2 as was done for phase 1.

**5. Are there any other topics that should be considered by the IAASB when determining its ‘information-gathering and research activities’ in accordance with the new Framework for Activities? The IAASB has provided its views on tentative topics to be included in its ‘information-gathering and research activities’ (see page 10).**

We refer to our response to Question 2 in relation to Theme B on the difference between, on the one hand, for the purposes of the auditor’s audit opinion on the financial statements, improving auditor performance and perhaps reporting specifically on fraud, non-compliance with laws and regulations, and going concern matters, and on the other hand extending the responsibilities of the auditor in relation to fraud, non-compliance with laws and regulations and going concern matters beyond the opinion on the



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financial statements. As noted in our response, we regard the latter to be beyond the remit of the IAASB as a private sector standard setter.

We believe that the topics on the “radar” are too audit-centric. In our view, the IAASB needs to focus more on other assurance engagements and related services. In particular, the IAASB should consider:

- Whether standards may be appropriate for other kinds of related services engagements, such as expert opinions and agreed-upon assurance procedures,
- The need for assurance engagements in relation to IT (e.g., cybersecurity, data protection, and safeguarding essential IT infrastructure).
- The need for direct engagements under ISAE 3000 for historical financial information and for exploring the distinction between “certifications” and assurance engagements.
- The issue of “blended engagements” (and in particular, reporting for these), when many different kinds of information and assurance and related services are performed in one engagement and provided in one report.

We would also like to point out that two standards remain that are increasingly anachronistic because they have not been revised for a long time and are not in clarity format: ISRE 2410 and ISAE 3400. Both standards are used in practice around the world (for lack of better standards). We therefore strongly recommend that the IAASB consider commencing projects to revise these two standards as was done for ISRS 4400, which was addressed largely when time was available and used national standard setting resources.