

Envisioning the Future—Survey on the IAASB’s Future Strategy

Response ID:730 Data

7. SECTION III: ABOUT THE RESPONDENT

1. From which perspective are you providing this feedback:

The view of an organization.

Please Indicate:

2. Please complete

Name of Organization: : Wirtschaftsprüferkammer

Name or Person submitting Survey on behalf of the organization: : Dr. Reiner Veidt

3. Select from the following options that describe your organization:

IFAC Member Body or Other Professional Organization

Is this a/an:

Is this response on behalf of the global network?

Is this response on behalf of a regional or national firm?

Other Firm?

4. IFAC Member Body or Other Professional Organization

IFAC Member Body, Affiliate or Regional Organization

National auditing standards same as, or based on, the IAASB’s current International Standards on Auditing

Please specify which standards are used:

Other national standards same as, or based on, IAASB’s other standards (i.e., assurance, related services and reviews)

Please specify which standards are used:

Are you a listed or non-listed entity?

Small or Medium-Sized The concept of ‘smaller or less complex entities’ varies country by country, but ordinarily exhibits one or more of the following characteristics:Concentration of ownership and management in a small number of individuals.One or more of the following:Straightforward or uncomplicated transactions.Simple record keeping;Few lines of business and few products within business lines;Few formal internal controls; Few levels of management with responsibility for a broad range of controls; orFew personnel, many having a wide range of duties.

.Entity?

Please Indicate:

Do you apply International Standards of Supreme Audit Institutions (ISSAIs) for financial audits

Those Charged with Governance

Private Sector

Please specify in the box below.

Are you any of the following?

5. Please select the geographical region where you are based:

Europe

8. SECTION IV - QUESTIONS FOR RESPONDENTS ABOUT THE IAASB'S STRATEGY FOR 2020-2023

6. 1. In your view, will the strategic environment affecting the needs of the IAASB's stakeholders look like in 2020 onward and what will be the impact on the IAASB's International Standards (for example, will the audit market change significantly; will other services dominate stakeholders needs – including what the needs may be for different types of evolving services; how evolving technologies, such as cryptocurrency, artificial intelligence or blockchain , will impact the environment in which the IAASB's stakeholders operate, etc.).

The profession of accountants and auditors faces important and major challenges worldwide. Therefore, we welcome the early involvement of all stakeholders and hope that our deliberations will be considered. We basically agree with the analysis presented by the IAASB under Section II.

Specifically, WPK identified the following major issues:

1: Technological Changes (e.g. Digitization): The increasing complexity of client transactions in a globalized economic area combined with new and evolving technological possibilities poses challenges on services for which the IAASB has standards and efforts for the entire profession to keep pace with this evolution. This is especially noticeable in the field of digitization, data analytics, blockchain and AI and requires appropriate reactions by the IAASB.

2: Regulation: Legislators and standard setters (the latter oftentimes driven by regulators) tend to continuously increase the professional and regulatory requirements. These increasing requirements, combined with the challenges related to digitization, accelerate the process of concentration in the audit profession. Furthermore, increasing complexity leads to decreasing audit-margins in a barely growing audit market.

3: Soaring importance of non-financial information urges the IAASB to provide more guidance on the application of existing standards in this environment (including multi-scope engagements).

Another core topic for IAASB should be how to trim the complexity of standards for the needs of SMPs and engagements in relation to SMEs. Therefore the development of more principles-based and customized standards especially for the audit of small and medium sized entities (in the following: "Audit Standard for SME") should be fostered. This proposal is due to the fact that SME represent the predominant corporate structure and SMPs who conduct the corresponding audits suffer difficulties to identify and apply the ISAs in a proportionate manner. We suggest the IAASB to conduct a survey, how many statutory audits are performed per member state and how many auditor hours are spent on this.

Finally we would like to stress that obtaining suitable Young talents as an important challenge for the next years, even this is not in the sphere of responsibility of IAASB: the profession is faced with the challenge of finding and retaining suitable and willing young talents. In Germany, e.g., the number of candidates for the professional examination decreased by 40% over the last 10 years. Therefore, the perception of profession and the corresponding career options amongst young people must become more visible.

1. In your view, will the strategic environment affecting the needs of the IAASB's stakeholders look like in 2020 onward and what will be the impact on the IAASB's International Standards (for example, will the audit market change significantly; will other services dominate stakeholders needs – including what the needs may be for different types of evolving services; how evolving technologies, such as cryptocurrency, artificial intelligence or blockchain , will impact the environment in which the IAASB's

stakeholders operate, etc.). - Text Analysis

7. 2. Section II. Describes the additional challenges and opportunities that the IAASB has identified relating to its people, processes and technology, including possible changes that may arise from the MG consultation. In your view, as the IAASB develops its Strategy for 2020–2023, what are the:

- (a) Key challenges and other factors that may impact the IAASB's activities and focus; and**
- (b) Main opportunities for changing the way it undertakes its activities.**

Your response may include views about the matters identified by the IAASB as set out in Section III, but any views about matters that have not been mentioned are particularly welcome.

1. We generally agree with the IAASB's analysis. A careful and selective handling of the proposals of the Monitoring Group is necessary, however, the impression that the IAASB agrees with each and every single proposal of the MG should be avoided. This might bare the risk that the good work of the SSBs in the past is suspected which would damage the entire work of IAASB. We want to emphasize that there is no evidence for any material weaknesses in the extant standards. On the contrary: both Audit/Assurance and Ethical Standards are worldwide accepted due to their high quality which was achieved by the valuable involvement of PIOB and Monitoring Group in the course of development. Against that background we see a potential risk by undertaking too progressive changes. Jurisdictions using ISA / IESBA Code of Ethics could waive the standards or refrain from their implementation in the event of far-reaching modifications. Therefore, we would like to ask the IAASB to ensure a sensitive and responsible handling of the MG requirements.

2. Monitoring Group:

The future strategy of IAASB depends heavily on the further development and the outcome of the MG consultation. In our view the crucial questions in this context are:

a) Funding

To avoid a perceived "undue influence" of the profession on the standard-setting process, we consider the Funding deliberations articulated in the MG-paper to be highly questionable. Almost complete funding of the standard setting by the profession fosters a perceived "undue influence" - even if it is unjustified. From our point of view, the financing of the standard setting must be broad and stable which is in line with the idea of public interest.

b) Structure

Besides the Funding the number and composition of the board(s) is important for the future strategy. Measures should be taken in a timely manner to clarify that there is no "undue influence". From our point of view, the involved persons / institutions should be presented more transparently at the IAASB, PIOB, CAG and MG, including their respective tasks. In this context, it should be emphasized that no stakeholder group (users, auditors, regulators) can by oneself exercise any undue influence on the standard-setting process.

3. People:

The strategy of IAASB shall highly be influenced by the question about how to attract high-caliber and qualified people (with sufficient IT and professional know-how plus social skills) to work at the SSB-level as well as at staff level.

4. Further suggestions:

a) The value of an audit (voluntary and mandatory) for both the public and the companies should be better communicated and strengthened by the IAASB. Here, above all, we see a need for clarification among the companies due to the fact that they often misjudge the added value of an audit (credibility, credit-worthiness, transparency and so on). For example, raising the thresholds in France recently waived the obligation for statutory audits of several thousand companies with a significant impact to the profession.

The negative side effects of such measures must be made transparent.

b) The paramount ambition for the IAASB should be to provide the profession with robust and principles-based standards, we generally advocate a speeding up of the standard setting. However this makes the standard setting process susceptible that changes were made on every bagatelle and/or that too many changes were made. Both are a burden on quality ("haste makes waste").

8. 3. Are there specific initiatives within the stakeholder group to which you belong, or of which you are aware, that you believe the IAASB should actively monitor in light of their potential to inform the IAASB's future agenda? If so, what are they, and why do you think they are relevant to the IAASB?

1. Digitization pertain all areas and does not stop at the auditor's threshold. Although the profession in Germany is very well developed we perceive that some auditors do not know what is feasible and suitable in this context. Therefore tools in the area (e.g. Data-analytics) may be helpful which show the auditor how to proceed and how to deal with the gained insights.

2. We propose to further stress the idea to provide an exchange platform in the sense of international "best practice" at IFAC or SSB level. This could be used to show what other member organization do to support their members on selected issues and topics.

9. THE FOCUS OF THE IAASB's ACTIVITIES IN 2020–2023

9. 4. Section II illustrates that the IAASB has, and will continue to, focus a significant part of its efforts in 2015–2019 on revising and developing standards addressing the audit of historical financial information and quality control. With respect to new standard-setting projects for the period 2020–2023, in light of where you believe IAASB actions are needed and to continue to serve the public interest, in your view what proportion of effort should the IAASB allocate to each of the following? (Allocation should total 100%)

Quality control : 10%

Audits and reviews of historical financial information : 25%

Other assurance- [EER](#)Emerging Forms of External Reporting (EER) refers to emerging forms of external reporting by entities that increasingly provide non-financial information that goes beyond the traditional (financial statement) focus on the entity's financial position, financial; performance and impact on its financial resources. engagements : 20%

Other assurance (and [related services](#)Related services pronouncements include:ISRS 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information (currently being revised); ISRS 4410 (Revised), Compilation Engagements.) - other than EER engagements : 10%

Professional skepticism : 10%

Matters relating to audits of smaller and less complex entities : 25%

Total : 100%

Comments: - Regarding "Quality control" please see our reply to question 6. - "Audit" is the core issue comprising the core principles. Therefore all other assurances services should be derived from this. Other services including EER should continue to be closely monitored due to their increasing relevance. - Professional Skepticism is in our opinion an important issue and IAASB has put a lot of work on that issue. However professional skepticism depends on the inner attitude of the Auditor and of course the national conventions. Hence gently educational work must be done rather than developing new or revising extant standard. New and additional standards are – in our view - not targeted at this point. - Special attention and support should be given to the Complexity of the Standards relating to the Audit of SME, as this represents the vast majority of all audit engagements (see Q1). From our outreach activities we experienced the call for "Simple standards for simple entities". A proper definition and demarcation of the term "small business" could be helpful.

10. Please provide relative %; for each option by category to total 100%

	(i) Developing new or revised standards	(ii) Undertaking implementation activities	(iii) Apply efforts to both
Quality control	10%	90%	
Audits and reviews of historical financial information	50%	50%	
Other assurance – EER engagements	50%	50%	
Other assurance (other than EER engagements) and related services Related services pronouncements include: ISRS 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information (currently being revised); ISRS 4410 (Revised), Compilation Engagements.	50%	50%	

Comments: - "Quality control" was and is intensively handled with the revision of ISQC1 and 2. Therefore a "period of calm" should be granted to all participants. Changes or new requirements should only be created after careful analysis. If changes are considered to be unavoidable, consequences and risks should be analyzed and explained. - In the field of "Audit" the focus should be on developing trimmed standards for audits of small and medium-sized enterprises (SME), which could be applicable to the vast majority of all audits. - Regarding the "Other assurance" services, the regulatory density is lower, but the dynamic is higher (Non-Financial Reporting, CSR, Alternative Performance Measures, etc.). Therefore, the need for action tends to be greater.

11. 6. In relation to the development of new, or the revision of extant, standards as noted in Question 5, and in keeping an open mind as to the impact of the evolving environment and the challenges and opportunities for the IAASB in 2020–2023, should the IAASB, in your view:

- (a) Focus first on a strategic review of extant standards (for example, consider how the standards could be better structured or presented in light of evolving technologies) before prioritizing projects on new topics. Please provide an explanation for your view.
- (b) Prioritize projects on new topics (as determined by the consultation on the IAASB's future strategy and priorities). Please provide an explanation for your view.
- (c) During implementation of the current standards under revision (i.e., those standards that currently have a committed project plan in place), consider a moratorium on developing new or other revised standards? If so, how long should such a moratorium last? Please provide an explanation for your view.
- (d) Undertake other actions related to the development of new, or revision of extant, standards, and/or implementation support. Please describe what these actions should be and provide an explanation for your view.

Based on our previous comments the actions should be prioritized as follows:

1. Extant standards should be revised under the Top-Issue of technological changes in particular digitization (re. a).
2. Trimming the Standards due to their complexity for the benefit of Audits of SME (re. b).
3. Creating an exchange platform in the sense of "best practice" (re. d).
4. Apart from the No 1 – 3, granting a moratorium and reducing activities (re. c).

12. 7. If there was a specific topic(s) that, in your view, should be the IAASB's priority(ies) when

developing new, or revising existing, standards or related guidance for the period 2020—2023, what would it be, and why?

Where applicable, kindly indicate whether in your view the topic(s) (you have indicated) has particular relevance mainly for engagements for listed entities, small- and medium-sized entities (SMEs), or for entities of all sizes. Views in relation to matters of relevance to developing nations and the public sector are also encouraged.

- The current standard-setting process is focused on the audit of capital market-oriented (listed) companies. Regarding the vast majority of the non-listed entities to be audited the existing standards bare the risk that they are too complex and thus difficult to handle in the non-capital market sector and might not fully be accepted in the SMP / SME sector. On the contrary: the complexity of standards may form a barrier to their implementation. This is an issue for all entities, but is particularly important for SMPs and SMEs environment.

- Beneficial Guidance in relation to assurance and related services for non-financial information (both EER and other) for entities of all sizes.

13. 8. Are there any other topics of interest or matters of relevance that you feel the IAASB should consider when conducting its strategic review, including those related to its the way that the IAASB undertakes its activities (e.g., changes to address matters highlighted in the MG review)?

- We see a need for clarifying the distinction between the terms "public interest entity" and "listed entity". In German "PIE" comprise 1) entities traded on a regulated market or issuers of securities admitted to trading on a regulated market, certain 2) credit institutions and 3) insurance undertakings. In addition, a distinction is made in Germany between "regulated market" (so called Regulierter Markt) and "open market" (so called Freiverkehr), for which significantly lower regulatory and professional requirements apply. The IAASB only applies the segment "listed entity". A definition of this segment would be helpful, in detail regarding the effective date when an entity becomes a listed entity.

- In view of the Monitoring Group consultation, a common and transparent understanding of public interest should be established. Clear and transparent requirements for the standards, the standard-setting process and related changes must be identified in this understanding. With the reference to some vague and unclear 'public interest concept' no changes to existing requirements or creation of new requirements can be justified for the standard setting board(s) and the standard setting process. Therefore, the development of a public interest framework is urgently needed.

- Exchange platform for "best practice", starting with digitalization.