

# **Practical experience in application of Audit quality assurance system and public oversight**

**WP/StB Petra Gunia – Department Head Quality Assurance**

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## Agenda

### **A. WPK's Role and Remit**

### B. Quality Assurance System

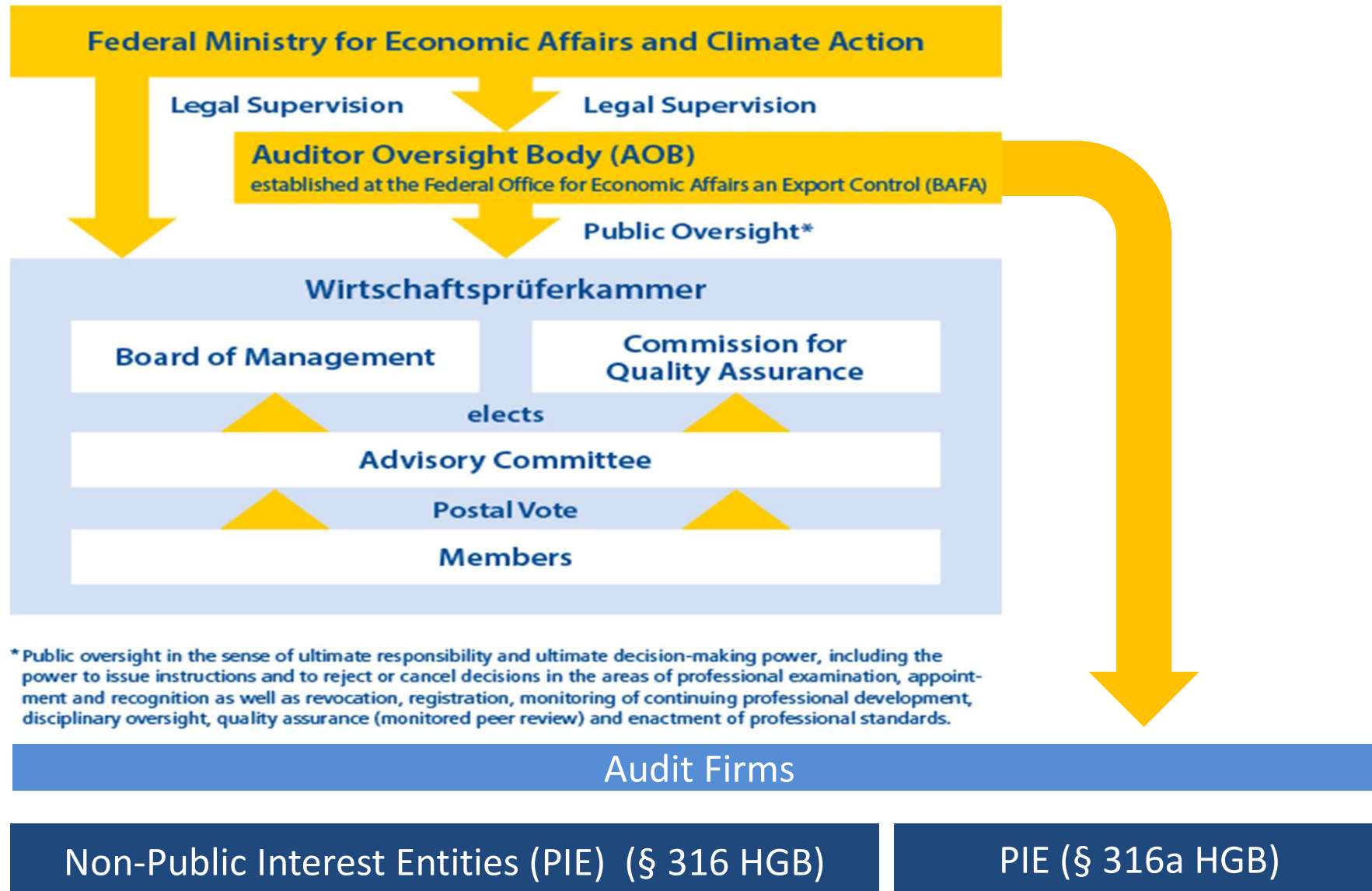
1. Overview
2. Obligation and Scope
3. Commission for Quality Assurance
4. Quality Assurance Reviewers
5. Reviewer's report
6. Measures by the Commission for Quality Assurance
7. Auditor Oversight Body (AOB)

## A. WPK's Role and Remit

### German Market for Statutory Audits 2020

- 555,000 company financial statements published in the Federal Gazette, 46,000 require a statutory audit
- 20,000 auditors and audit firms in Germany, thereof
  - 3,000 auditors and audit firms entitled to conduct a statutory audit
  - 63 auditors and audit firms conduct statutory audits of 990 Public Interest Entities (PIEs)

## A. WPK's Role and Remit



## A. WPK's Role and Remit

- WPK represents entire German profession of public accountants
- Mandatory membership of all auditors and audit firms in Germany
- WPK is authorized by law to act in the following areas:
  - quality assurance (see Agenda Item B.)
  - disciplinary oversight regarding Non-PIE
  - representation of profession towards the public and policymakers
  - advising members in questions concerning professional duties
  - examination
  - licensing and registration, revocation of licenses and
  - adoption of professional rules

**→ Delegation from AOB to WPK to greatest possible extent**

## Agenda

A. WPK's Role and Remit

**B. Quality Assurance System**

1. Overview

2. Obligation and Scope

3. Commission for Quality Assurance

4. Quality Assurance Reviewers

5. Reviewer's report

6. Specifics for Statutory Auditors of Companies of Public Interest

7. Measures by the Commission for Quality Assurance

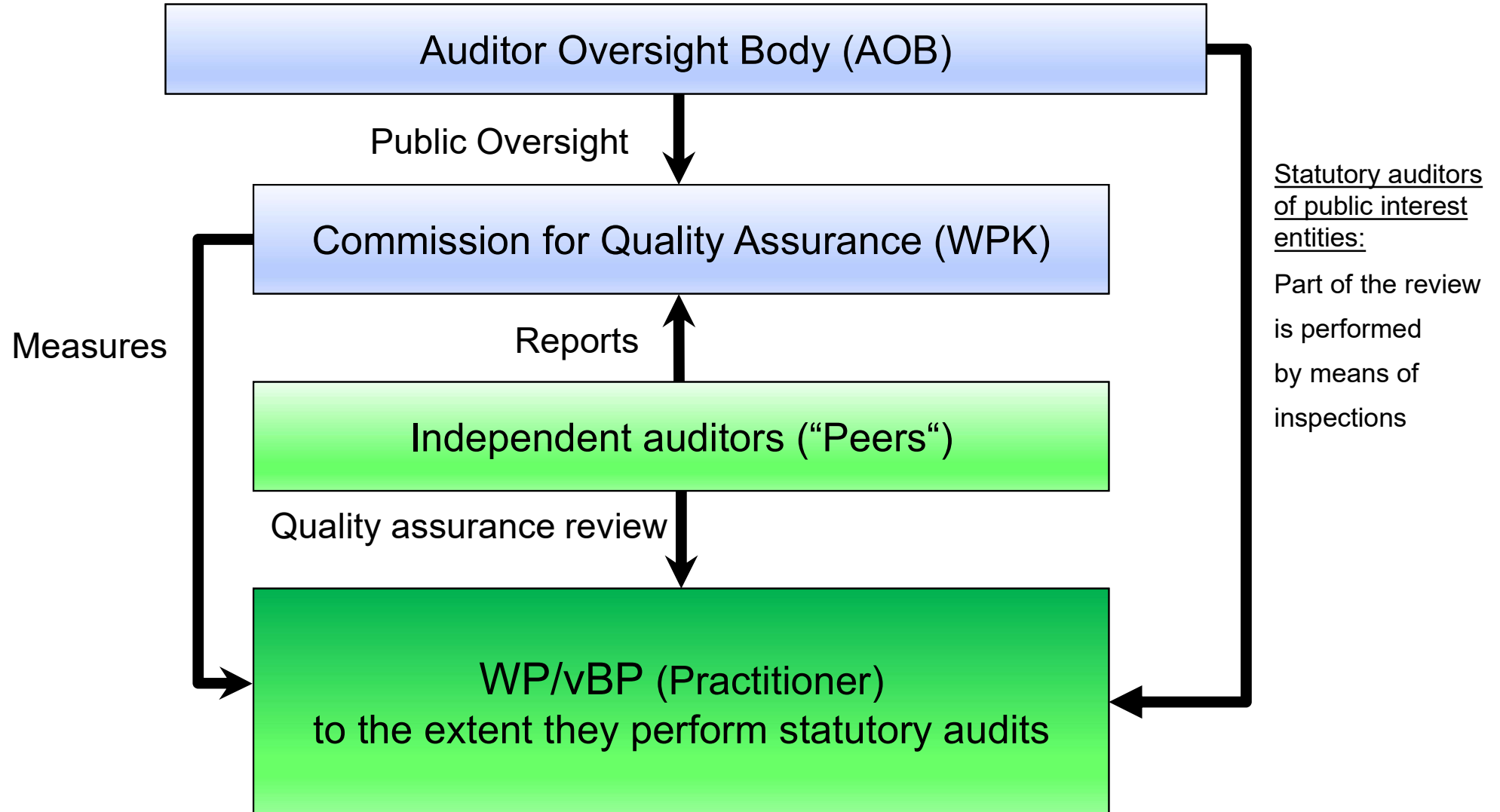
8. Cooperation with the Auditor Oversight Body (AOB)

9. Walkthrough

## 1. Overview (1)

- Principles of German quality assurance system:
  - ✓ All statutory auditors must have adequate policies and procedures for orderly conduct and securing the quality of the audit
  - ✓ All statutory auditors are obliged to perform a quality assurance review
  - ✓ Public accountants performing statutory audits are registered with WPK in a public register
  - ✓ Obligation to perform a quality assurance review at least every six years
  - ✓ Term of review is based on a risk assessment

## 1. Overview (2)





## 2. Obligation and Scope

### Obligation:

- Statutory auditors
- At least every 6 years based on a risk assessment
- Approx. 3,100 practices performing statutory audits
- Approx. 46,000 statutory audits per year in Germany

### Scope:

- Assurance that the internal quality control system is in accordance with IFAC ISQM1, ISQM2 and ISA 220 rev.
- Test of design and test of controls (adequacy and effectiveness)
- Audit files of statutory audits
- Small audit firms (up to 2 partners and 5 engagements per year):  
Focus basically on audit files

## Excursus: Implementation of ISQM 1, ISQM 2 in Germany 1/2

- Standards do not directly bind Public Accountants in Germany
- However, WPK and IDW (Institute of Public Auditors in Germany, Incorporated Association) as IFAC members are obliged to implement them.
- WPK: Implementation in professional law and statutes
- IDW: Transformation of ISQM 1 and 2 into new German Quality Management Standards (QMS 1 and 2) and translation of ISA 220 into an ISA [DE] 220
- First application date was postponed by 1 year to **December 15, 2023**, in order to give the profession sufficient time for implementation.

## Excursus: Implementation of ISQM 1, ISQM 2 in Germany 2/2

### **WPK Implementation in Professional Statutes:**

- Scope of application is limited to statutory audits
- Fundamentals of the two central elements of ISQM 1 (risk analysis and continuous improvement) are already anchored in German professional law
- Scalability is already inherent in the current system

### **IDW transformation and translation:**

- “minimally invasive” transformation into QMS 1 and 2
- QMS 1 and 2 adopted on September 28, 2022
- Release is pending

### 3. Commission for Quality Assurance (1)

#### **Composition:**

- 15 German Public Accountants
- Representatives of small and medium sized firms as well as Big-4-Firms
- Elected by the Advisory Board upon recommendation by the Board of Directors

#### **Principles:**

- Independent and not bound by instructions
- Honorary capacity
- Meets on average 6 to 8 times a year to debate

### 3. Commission for Quality Assurance (2)

#### **Responsibilities:**

- In charge of all matters involving quality assurance (to the extent that AOB is not in charge)
- Receiving and evaluating reviewers' reports
- Registration of statutory auditors
- Deciding on due dates of quality assurance reviews based on risk assessment
- Deciding on measures
- Deciding on appeals against decisions involving quality assurance
- Provides an annual report

## 4. Quality Assurance Reviewers

### Prerequisites:

- Registered with WPK as statutory auditor
- Appointed for at least 3 years as German Public Accountant
- Active in performing statutory audits
- Special education in the field of quality assurance
- No convictions of severe disciplinary measures in the past five years
- Ongoing special training in quality assurance (average of 8 hours per year)

## 5. Reviewer's Report

### **Content:**

- Summarization of the reviewer's results
- Information about the firm that has been reviewed
- Description of the quality control system
- Type, subject, nature, and extent of the review, including
  - Number of hours spent on the review and
  - Composition and qualification of the review team
- Evaluation of the review results and
- Conclusion

### **Guidance:**

- Commission issues guidance on reporting

## 6. Measures by the Commission for Quality Assurance

### Instruments:

- Measures aimed at remedying deficiencies
- Special review
- Combination of both
- Fine up to € 25,000
- Cancellation of registration as statutory auditor

### Results:

In **2021** the Commission for Quality Assurance decided on **272** quality assurance reviews. Of these, **27** firms received sanctions:

- 14 measures aimed at remedying the deficiencies,
- 5 special reviews,
- 8 combinations of both.

No cancellations of registration as statutory auditor



## 7. Auditor Oversight Body (AOB)

- AOB verifies (by means of inspections) the adequacy of the design of the quality control system of PIE-auditors and the effectiveness in audits of public interest entities in its own cycle
- Reporting on the inspections is equivalent to quality assurance reviewer's report
- Peer reviewer verifies effectiveness in audits of non–public interest entities (NON-PIE) of PIE-auditors
- AOB participates in meetings of the Commission for Quality Assurance and its committees
- AOB may participate in quality assurance reviews (opening and/or closing meetings)
- AOB receives all relevant information from the Commission for Quality Assurance (e.g. agenda papers, list of upcoming quality assurance reviews)

**Thank you for your attention!**