

November 15, 2017

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submitted via email to comments@pcaobus.org

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**PCAOB Release No. 2017-005, September 26, 2017,
PCAOB Rulemaking Docket Matter No. 042: Supplemental Request for
Comment: Proposed Amendments Relating to the Supervision of Audits
Involving Other Auditors and Proposed Auditing Standards – Dividing
Responsibility for the Audit with Another Accounting Firm**

Dear Sirs,

The IDW appreciates the opportunity to comment on the above mentioned Release, hereinafter referred to as “the 2017 Release”. We also commented on the 2016 Release under Rulemaking Docket No. 042 in a letter dated July 29, 2016. In commenting below on specific aspects of the current proposal we refer to that letter as “our previous letter”.

In this letter, we express general support for the PCAOB’s initiative, and then comment on those aspects of the Release with which we have specific concerns. Since divided responsibility is not prevalent in Germany, we have again chosen not to comment on the aspects of the Release relating to division of responsibility. Furthermore, we have chosen not to respond to individual questions posed throughout the Release.

General Support

As stated in our previous letter, we agree that the revision of the PCAOB’s interim auditing standards is needed in this area. We also support many of the changes proposed in order to address matters raised within comments received on the 2016 Proposal.

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

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Soliciting Awareness of all Firms Likely to be Impacted by the Proposals

We note that, in addition to discussions held in the SAG in 2016 and 2017, the PCAOB received only 23 comment letters on its 2016 Release.

The issue of supervision of other auditors involved in an audit pursuant to PCAOB Auditing Standards is significant to many foreign audit firms – not just those who are required to be registered with the PCAOB themselves, since such firms often undertake audit work in the role of other auditor. Indeed in requiring the lead auditor to obtain certain documentation and an understanding of certain internal processes and policies and procedures, the proposed changes would, indirectly, impose certain new requirements directly on such firms.

We suspect that many non-registered firms are less aware of the detailed content of the Board's Releases than might be expected of registered firms, although many of them are, or may be, indirectly affected by the PCAOB's supervision standards.

We would encourage the Board to take steps to obtain greater involvement in its debates going forward and to raise awareness of the impact on firms serving in the role of other auditor. In this context, we also believe that alignment as far as possible to the ISAs is desirable in terms of promotion of audit quality and refer to our comments below in this regard.

Extending the Role of Lead Auditors

In our previous letter we expressed concern that the 2016 proposals would result in lead auditors having to adopt a highly bureaucratic approach to the supervision of other auditors. In general, we retain this concern.

A new aspect of the revised proposals would require the lead auditor who uses the work of an "other auditor" to obtain understanding of each of the other auditors' internal processes for determining compliance in terms of independence (AS 2101 .B4 a.) and to inquire about the other auditors' policies and procedures in regard to training of technical expertise (AS 2101 .B6 a.(2)). The standard does not indicate criteria by which a lead auditor can determine whether a particular process, policy or procedure is appropriate for individual audit circumstances. Our concern is that this particular requirement could result in inconsistent or even unrealistic expectations as to processes, policies and procedures that other firms should have in place, and thus could de-facto imply further requirements for other auditor firms.

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Documentation

The explanation on page 20 of the 2017 Release implies the other auditor may need to document beyond the requirements of PCAOB standards. To the extent that this to be understood to refer to a “summary memorandum”, we believe that as far as foreign audit firms may be concerned, the proposed changes are more feasible than the 2016 Proposal. A memorandum prepared for the lead auditor (in some cases, the other auditor’s audit client would have to have given explicit consent (waiver of confidentiality)) supported by reference to the other auditor’s audit working papers and files etc. would appear to us to ensure the lead auditor is able to support the audit opinion and at the same time ensure that a foreign-based other auditor can adhere to e.g., confidentiality requirements of that auditor’s third country, where appropriate. German public auditors remain subject to restrictions on their ability to provide working papers (and access – as proposed to be required by AS 2101 B6c.) to third parties, including lead auditors.

Determination of Ability to Serve as Lead Auditor

We agree that the determination of the ability to serve as lead auditor is one of professional judgement, and support the addition of “importance of the location or business unit audited by the lead auditor” as a second factor to take into account in this determination. However, without explicit guidance, the term “importance” could be subject to misapplication – i.e., importance is measured by reference to head office decision making, whereas it may be difficult to really “prove” where the decisions are really made. The IAASB has been considering the issue of so-called letter box audit issue in some jurisdictions in this context, and their deliberations in this regard may be useful to the PCAOB. Although the proposed addition of a benchmark for the engagement partner’s firm (ordinarily 50% of assets or revenues) may be helpful guidance, it potentially may mean that some groups might become un-auditable without division of responsibilities.

Calls for Clarification

Many of the comments discussed in the 2017 Release are actually calls for clarification. We have previously commented on the lack of application guidance within PCAOB Auditing Standards and guidance about how the requirements in these standards could be adhered to in practice. We suspect this issue is particularly difficult for firms that perform few audits according to PCAOB Auditing Standards (primarily smaller or foreign firms and especially any of

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these who are “other auditors”). Without additional guidance such auditors may only find out the true desires of the PCAOB when its inspection teams report a finding, which is arguably not a useful way to achieve audit quality in a timely manner. The revised proposals in the 2017 Release go some way to addressing comments received (see also page 42 of the 2017 Release, where the Board explains the economic impact) and many of the additional explanations now given only within the Release are certainly helpful in this regard. However, in addition to explaining the Board’s views in the 2017 Release, it would be equally appropriately to add these clarifications (including the use of notes etc.) within the body of the standards.

We support the clarification on page 40 of the 2017 Release. However, the fact that commenters raised concerns as to the practical implementation of scalability (ref: page 40 of the 2017 Release) indicates the need for better clarification in this regard. We consistently hear that auditors’ uncertainty as to what regulators expect results in the performance of excessive work in some areas (i.e., costly inefficiencies) that could perhaps be reigned-in if more clarification were provided. To illustrate with just one example: clarification of the reference to “important audit tasks” (bottom of page 15 of the 2017 Release) would be helpful in understanding the practical application of AS 2101 .B6.

We further note the proposed introduction of a requirement for the other auditor to provide a written description of all relationships “reasonably thought to bear upon independence” (AS 2101 .B4 b.(1)). This documentation shall inform the lead auditor’s determination of compliance with SEC and PCAOB independence requirements by enabling the lead auditor to perform procedures to determine the effect of any inconsistent information arising during the course of the audit, of which the lead auditor becomes aware. In order to prepare such documentation and for the intended purpose to work effectively, the other auditor would need to have a clear understanding of the term “reasonably thought to bear upon independence”. Specific guidance in the standard would thus be useful in this context. Indeed, clarification of the lead auditor’s role in ensuring that the other auditor properly understands the requirements pertaining to the audit might also be appropriate.

Desirability of Alignment with the International Standards on Auditing (ISA)

We refer to our previous letter in which we also referred to the desirability of aligning PCAOB standards with their corresponding ISA to the maximum extent possible. We note that there is little reference in the 2017 Release to calls for, or

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the desirability of, alignment with ISAs, which is disappointing, since given the level of involvement of other auditors, ensuring compliance is as straightforward as possible for audit firms with relatively little involvement in audits pursuant to PCAOB standards would also be a factor in increasing audit quality.

We would like to reiterate our calls for maximum possible alignment and urge the two respective Boards to coordinate in this regard.

If you have any questions relating to our comments in this letter, we should be pleased to discuss matters further with you.

Yours truly,

Klaus-Peter Feld
Executive Director

Gillian Waldbauer
Head of International Affairs