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IDW Announcement: Change in German Auditing Standard Setting from Transposition of International Standards on Auditing (ISAs) to Adoption of ISAs

The Institut der Wirtschaftsprüfer in Deutschland [Institute of Public Auditors in Germany] (IDW) has announced that standard setting for the audit of financial statements will change from the current model. Currently, the IDW transposes into its national auditing standards (IDW Auditing Standards) the International Standards on Auditing (ISAs), as promulgated by the International Auditing and Assurance Standards Board (IAASB). The IDW has recently commenced a project to change this model so that the IDW adopts the German translation of the ISAs and adds specially denoted paragraphs (“D paragraphs” for “Deutschland”) to deal with the requirements of German law. The translation of the ISAs together with these D paragraphs will then be designated “ISA-DE” – that is “ISA-Deutschland). Until this project has been completed and the final ISA-DE adopted by the IDW Auditing and Accounting Board, the current IDW Auditing Standards will remain in effect.

However, due to the nature and extent of German and EU legal requirements related to auditor reporting (e.g., the assurance opinion on the management report required by German law), communication with those charged with governance (e.g. the long-form audit report required by German law and for the audits of financial statements of public interest entities required by the EU Regulation), and going concern, the commensurate ISAs will not be adopted for the time being, but will continue to be transposed. Consequently, in these areas the IDW Auditing Standards relevant to financial statements audits will continue to apply.

The adopted ISA-DE and the remaining German standards relevant to financial statement audits will form a package representing the German Generally Accepted Standards for Financial Statement Audits (“Grundsätze ordnungsmäßiger Abschlussprüfung or “GoA”). As a rule, an auditor performing audits of financial statements in accordance with GoA will be able to refer in the auditor’s report to their audits having performed in accordance with the ISAs in addition to in accordance with GoA.

The project to adopt the ISAs other than the few that will continue to be transposed for the time being is expected to be completed in 2018 and is expected to apply to audits of financial statements for periods beginning on or after December 15, 2019. However, early application will be permitted. Since the current IDW Auditing Standards had transposed the ISAs, it is not expected that the change from transposition to adoption will have a significant impact on the performance of financial statement audits in Germany.