

Mr. Ken Siong
Technical Director
International Ethics Standards Board
for Accountants
International Federation of Accountants
529 Fifth Avenue
New York, NY 10017
USA

Wirtschaftsprüferhaus
Rauchstraße 26
10787 Berlin
Telefon 0 30/72 61 61-0
Telefax 0 30/72 61 61-212
E-Mail kontakt@wpk.de
www.wpk.de

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Contact: **Dr. Jens Engelhardt**
+49 30 726 161 171
INT/IESBA/874

- please always indicate -

Proposed Strategy and Work Plan, 2014-2018

Dear Ken

Dear Ladies and Gentlemen

We are pleased to take this opportunity to comment on the above-mentioned consultation paper (hereinafter referred to as "CP").

We would like to point out some general issues first and provide you with our comments on specific projects of the proposed Strategy and Work Plan 2014-2018 (hereinafter referred to as "SWP") subsequently.

A. General Remarks

WPK highly appreciates – as called for in several of its previous comment letters – that IESBA is committed to **taking into account the particular perspectives of the SMP constituency** when it sets standards (para. 10 CP). In this context, the recent finalization of the statement of liaison principles with the IFAC SMP Committee is an excellent step forward.

We do also value the Board's intention to continue to increase its engagement and **cooperation with its key stakeholders** in its standard-setting process (para. 18, 55 CP). From our point of view, by means of such a cooperation the unique experience of the various stakeholders in

general and the member bodies in particular would be utilized for the sake of enhancing the quality of the standards. Against this background, the three already scheduled roundtables in 2014 concerning the project to address professional accountants' responsibilities regarding the disclosure to an appropriate authority of suspected non-compliance with laws and regulations is highly welcomed. These roundtables might also serve as a model for other important projects of IESBA. It might be worth considering to carry out such roundtables or at least guarantee an involvement of key stakeholders not only during ongoing projects, but also even before they get started to gain more information and a better understanding about the need and the urgency of a potential new project.

Also the various **outreach activities** planned by the Board (para. 47 CP) will raise awareness of the Code of Ethics (hereinafter referred to as "CoE") among stakeholders thereby contributing to achieving greater acceptance of the CoE as a high ethical benchmark globally and facilitating convergence of international and national ethics standards. In addition, the commissioning of staff publications relating to issues of particular interest could also contribute to even more familiarizing the stakeholders with the CoE and raise awareness of its robustness.

We also noted positively from the CP that the **SWP** is deemed by the Board as **dynamic** (para. 5, 20 CP). This prerequisite is essential since changes and new developments, respectively, can happen quickly nowadays and may call for a reconsideration of the strategic themes and actions. To anticipate or assess these changes and new developments, the recent establishment of the **emerging issues and outreach working group** is also viewed very positively by WPK.

Having made these general remarks, we would like to provide you with our comments on specific projects of the SWP in the following.

B. Specific Remarks

CP Question: "Do you support the four work streams the Board added to its SWP in 2012, i.e., Long Association, Non-Assurance Services, Review of Part C, and Structure of the Code (See Section II)? If not, please explain why."

WPK is highly supportive of the **Restructuring of the CoE**. As already discussed on the occasion of the NSS meetings in 2012 and 2013, we are of the opinion that the current structure and the drafting convention of the CoE is a significant impediment to the adoption of the CoE and its more effective implementation around the world. Hence, we highly appreciate IESBA's efforts dedicated to this project and would like to urge the Board to pursue it with high priority. An important aspect of the restructuring process to bear in mind is that amendments to the CoE could,

even if they were only intended to clarify an issue or to provide guidance, run the risk of changing its content (unintentionally).

With respect to the **Review of Part C**, we would like to refrain from any comments since, as you know, German law does not allow for professional accountants in business.

As regards the projects **Long Association** and **Non-Assurance Services**, we do have some reservations already expressed in part in connection with the NSS-meeting this year. WPK highly appreciates the further development of the CoE and the corresponding efforts and work of the IESBA over the past years. However, in the light of the demands on the member organizations in terms of implementation and regulation (including translation) resulting from amendments to the CoE, further amendments should be carefully considered. Consequently, the burden of possible changes to the CoE for the various stakeholders should also be part of the considerations guiding the determination of potential actions, priorities and timing. Although this aspect seems not to be included as a key factor (para. 23 CP) in the CP, we assume that the Board is well aware of the burden matter since the CP points out this issue in another context (para. 11 CP) and it has also been discussed during several IESBA meetings.

Nevertheless, further to the projects Non-Assurance Services and Long Association, there is, in our view, no evidence that the CoE provisions would not be sufficient to ensure conscientious and independent audits. For SMPs, tightening the internal rotation might de facto lead also to an external rotation resulting in further competitive disadvantages. As regards the Non-Assurance project, we gained the impression during the last IESBA meeting that partially only a clarification of the Non-Assurance provisions might be intended and pursued, respectively. Such a clarification project would be helpful, basically. However, to the extent that such a clarification is considered useful, this could possibly also occur in the form of a special guidance paper.

Besides, we would like to raise the Board's awareness of the tension between adhering to the recently finalized **EU requirements** concerning non-assurance services, which you certainly have taken notice of, on the one hand and complying with the requirements of IFAC in general and the CoE in particular on the other hand. WPK and also other European member bodies of IFAC would reach their limits if they suggested requirements beyond those prescribed by the EU. We are aware of the fact that IFAC is a global organization and issues standards that are binding on its member bodies worldwide. However, we believe that convergence of IFAC ethical standards with (significant) EU developments and EU value-based decisions should be aspired and pursued basically.

CP Question: “Are the strategic themes identified for the period 2014-2018 appropriate? If not, please explain why.”

From our point of view the strategic themes identified for the period 2014-2018 are appropriate.

CP Question: “Are the actions identified with respect to each strategic theme, and their relative prioritizations, appropriate? If not, please explain why.”

As regards **Long Association, Non-Assurance Services, Review of Part C and Structure of the Code**, please refer to our comments above. See also above the issues **SMPs, cooperation with stakeholders, outreach activities and emerging topics**.

A new work stream according to the CP is the review of the **safeguards** in the CoE. We have experienced difficulties in the past in connection with some safeguard provisions as to their meaning and scope, respectively. In the light of clarity and user-friendliness, the new work stream could be helpful if it were aimed at putting specific safeguards in concrete terms and clarifying their meaning by providing more illustrations and guidance.

The new work stream **Collective Investment Vehicles (CIV)** is an important one from our point of view. As regards accounting, IAS 24 is aimed at ensuring that an entity’s financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties. While particular provisions thus exist in the field of reporting, there is currently a lack of the counterpart in the field of auditing. Against this background and given the importance of CIVs that has continued to increase, we would like to confirm the CP’s assessment that there is a public interest need for the Board to focus strategic attention to this area.

Referring to the issue **audit quality**, we agree that the Board should remain an active participant in the broader audit quality debate internationally and therefore carefully consider the final recommendations from the IAASB’s audit quality project as far as there is a connection to ethics and the CoE, respectively. However, we are concerned that the forthcoming IAASB audit quality report might not fully meet the objectives of raising awareness of the key elements of audit quality, encouraging key stakeholders to explore ways to improve audit quality and thereby facilitating a greater dialogue between all relevant stakeholders on this topic. We have explained the reasons for this in our comment letter to the IAASB of March 15, 2013 (Exposure Draft: A Framework for Audit Quality), and we do hope that the final report will be further developed and meet our concerns.

With reference to the new work stream **fee dependency**, we would like to differentiate between several aspects of this topic:

The CP states: *“Among the matters this project may consider are whether guidance should be provided on the circumstances where an auditor should decline an engagement as a safeguard to eliminate any self-interest or intimidation threat that may arise from significant fee dependency”*.

We would just like to clarify that in our view a high fee as such does not pose a risk to independence if a client, e. g., is just willing to acknowledge the quality of the services rendered. However, if, e. g., 90 % of the turnover of the auditor originates from one and the same client, there is a serious risk to independence. This principle of a relative size-based consideration is already stipulated in the CoE, basically (cp. 290.220 and 291.151). Nevertheless, a more concrete distinction based on this relative-size approach or more illustrations and guidance with a view to the revenue-dependency, e. g., could be considered.

The CP further states: *“whether quantitative guidance should be provided regarding the level of acceptable fees for audits of entities that are not public interest entities”*.

The only comment we would like to make is to consider taking also the public interest entities into the consideration on the one hand, and also differentiate between statutory and non-statutory audits on the other hand.

The CP finally states: *“and whether guidance should be provided regarding when the quantum of fees for non-assurance services provided to audit clients may threaten independence”*.

As stated above in the context of the Non-Assurance Services project, we would like to encourage the Board to pursue convergence to the greatest extent possible with the EU decisions taken thereby avoiding a conflict between the EU provisions and the CoE.

CP Question: “Are there any actions not included in the proposed SWP that you believe the Board should consider for the 2014-2018 period? If so, please explain why, and indicate which actions identified in proposed SWP should be displaced (i.e., deferred or eliminated).”

From our point of view, there are no additional actions that the Board should consider for the 2014-2018 period.

We hope that our remarks will be taken into consideration in the subsequent course of the proceedings, and we would be delighted to answer any questions you may have.

Kind regards



Dr. Reiner Veidt
Executive Director



RA Peter Maxl
Executive Director