

August 4, 2014

International Ethics Standards Board
for Accountants (IESBA)
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USA

by electronic submission

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Dear Sirs,

**Re.: IESBA: ED Proposed Changes to Certain Provisions of the Code
Addressing Non-Assurance Services for Audit Clients**

Public trust in professional accountants is essential to the profession and its future. Thus it is essential for the profession to adhere to a high-quality code of ethical behavior.

We welcome the IESBA clarifying certain aspects of the existing Code designed to safeguard auditor independence, as this will help ensure consistent application of the relevant provisions within the Code. We submit our comments on the proposals as follows:

Request for Specific Comments

Emergency Provisions

1. Are there any situations that warrant retention of the emergency exceptions pertaining to bookkeeping and taxation services?

We generally support the proposal to remove the "emergency exception" provisions in paragraphs 290.172 and 290.185 relating to bookkeeping and taxation services, respectively, to audit clients that are PIEs, since we agree

GESCHÄFTSFÜHRENDER VORSTAND:
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with IESBA that the current wording is to some extent subjective and could be open to misuse.

We also agree that section 100.11 could be drawn upon to deal with any rare circumstances, in which it would indeed either be in the public interest or otherwise be necessary to prevent a disproportionate outcome for an auditor to depart from these particular requirements of the Code in an emergency or in other unusual situation. Whilst we appreciate the fact that paragraph 100.11 includes the recommendation for a professional accountant to consult with a member body or the relevant regulator in such circumstances, we believe that additional clarity is needed in this regard.

In our opinion it is the auditor who has to use professional judgment and then accept the responsibility alone for his or her decision to depart from a requirement of the Code. Using the term “recommendation” in this context is unhelpful, as it implies consultation is always recommended, and is likely to be regarded as a quasi-requirement, especially by auditor oversight authorities. In our view, it would be more appropriate to include guidance about possible consultation rather than to state it is “recommended”; indeed there may be circumstances when consultation is not warranted due to the limited nature and/or extent of any assistance requested by an audit client.

We are also concerned about the inclusion of the view expressed by the IESBA on page 6 of the Explanatory Memorandum: “A regulator may determine whether it would be in the public interest for an auditor to perform certain non-assurance services prohibited by the Code in an emergency or in other unusual situations.” Firstly, this could lead to an assumption that in judging whether public interest grounds support a departure of this nature, IESBA believes it is best practice to consult a regulator as opposed to a member body. Secondly, it leaves it totally unclear when – in order to prevent the disproportionate outcome also envisaged by Section 100.11 – a departure might be tenable, since this statement refers only to public interest.

Whilst emergency provision of bookkeeping and taxation services may be less of an issue in regard to the audit of larger PIEs, some smaller PIEs may well encounter temporary circumstances that cause them to turn to their auditor for “emergency” assistance in terms on prohibited non-assurance services. This may be particularly the case where special knowledge of the client’s industry is not widespread and the auditor’s familiarity with the client’s systems means that only the auditor is best placed to assist the client in meeting urgent external reporting deadlines. As drafted, the ED would preclude any provision of bookkeeping services and any provision of taxation services. In our opinion it

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would be appropriate for the Code to clarify in some way that factors such as the nature of assistance and the timeframe are criteria the auditor would need to take into account in such circumstances and that these would also play a role in the auditor's decision as to whether consultation is needed and, if so, whether consultation with a member body or a regulator would be appropriate. There is a significant difference between assisting with bookkeeping over a longer period or complete computation of a PIEs taxation liability and deferred tax provisions and assistance on a temporary basis for a brief period or in working on tax computations that were interrupted, e.g. through staff illness, but need to be completed under time pressure.

Management Responsibilities

2. Does the change from "significant decisions" to "decisions" when referring to management responsibilities (paragraph 290.162) enhance the clarity of a management responsibility?

In some ways the proposed deletion of "significant" in paragraph 290.162 does serve to clarify management responsibilities, as it encompasses all decisions on the matters listed rather than only those that are significant. In principle we agree to the proposed deletion, however, it removes the potential for de minima in relation to decisions not to be encompassed by the Code. For example, taken to the extreme, a "decision" concerning an expenditure from petty cash would be included, whereas under the extant wording would likely be excluded. In this context we note that the proposed addition as the 6th bullet point of paragraph 290.163 refers to control or management of bank accounts or investments and thus is rather clearer in this regard.

3. Are the examples of management responsibilities in paragraph 290.163 appropriate?

We welcome the proposed clarification of what management responsibilities shall constitute in the context of the Code. However, we do not agree with the proposed deletion of the first sentence of paragraph 290.163. The second sentence merely lists certain specific responsibilities, but introducing these with "includes", it indicates that the list is not exhaustive. A determination as to whether responsibilities other than those specified in paragraph 290.163 constitute management responsibilities, or not, will inevitably demand the

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exercise of judgment, and will depend on the circumstances. Therefore this first sentence should be retained.

4. Are there any challenges in understanding and applying the prerequisite set out in paragraph 290.165 for non-assurance services that should be considered?

We understand the desire to preclude a self-review threat by ensuring an auditor cannot provide services that a client “accepts blindly” due to ignorance of the matter(s) involved.

In our opinion, the proposal may prove difficult in practice, especially in the audit of smaller entities, or where a service requires a particular skill set. The Code will effectively prevent the auditor providing non-assurance services to an audit client if that client is unable to fulfil the requirements set forth in paragraph 290.165, by designating one individual. It may be easy to designate an individual as responsible for the client’s decisions – whether that same individual can possess suitable skill, knowledge and experience as proposed in this paragraph may be challenging for some SMEs, especially those with few staff, and a need for expert services. It may also be challenging for larger entities where the skill sets lie with junior staff not authorized to make management decisions.

The way the first bullet point of this paragraph is drafted the auditor has to decide whether the client-designated individual fulfils each of the listed criteria, and, if not, decline to provide the particular service. Thus the auditor will have to effectively tell the client that a lack of skill, knowledge and experience of the matter at decision-making level will preclude the auditor assisting the client in that particular service area. Not only may the relationship of trust in the auditor in an SME environment be “damaged” by such a contention, the client will be forced to seek the service elsewhere (potentially at lower quality, or at a higher cost when synergies due to audit knowledge are lost). There is unlikely to be real understanding from clients in such circumstances, and we suspect that auditors might seek to avoid confrontation of this nature by being overly optimistic in their assessment of client competencies, which is also not desirable.

In our view, the requirement for client management to take responsibility for its decisions, understand the service and respective responsibilities, should suffice from an SME perspective. Even in larger entities, requiring suitable skill, knowledge and experience of one and the same individual who also has to have

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appropriate decision-making authority is overly prescriptive. This is compounded by the deletion of “significant” in the first sentence of paragraph 290.165, such that it applies to all potential services and all management decisions resulting therefrom. As noted above, we believe a de minima threshold would also be appropriate in this context.

5. Will the enhanced guidance assist engagement teams to better meet the requirement of not assuming a management responsibility?

We refer to our response to Q4 above. In addition, from an SMP perspective we particularly welcome the clarification in the last sentence of 290.164, since this is an issue of some concern to SMPs serving SME audit clients, who do, in practice, often turn to their auditor for advice on specific issues.

6. Does the relocation of the guidance pertaining to administrative services into its own subsection provide greater clarity?

We support the proposal to identify this section alone.

In our opinion, the nature or likely magnitude of the services listed as examples will not be such that their provision will create a threat to auditor independence. Paragraph 290.166 states that providing such services does not *generally* create a threat to independence and refers to the need to evaluate the significance of any threat and apply safeguards as necessary. We have difficulty envisaging any circumstances when administrative services might threaten auditor independence, certainly to the extent where the threat might need elimination. Auditor and audit oversight authorities will be unsure how to deal with this section. We therefore suggest either the last sentence be deleted and the word “generally” be deleted in the penultimate sentence, or examples be provided as to when the IESBA envisages a threat could arise.

Routine or Mechanical

7. Does the proposed guidance on “routine or mechanical” clarify the term, or is additional guidance needed?

In our view, it is necessary to differentiate between the second and third bullet point, since if the client has approved the underlying documentation, determined

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the account classification and the amount to be recorded, the mere act of posting an amount can only be mechanical.

8. Is the meaning and identification of source documents sufficiently clear, taking into account documents that may be generated by software?

No issues.

Section 291

9. Do the changes proposed to Section 291, specifically the additional requirements to proposed paragraph 291.146, enhance the clarity of a management responsibility?

We refer to our comments in response to Q4, which also apply to proposed paragraph 291.164

10. Are the examples of management responsibilities in paragraph 291.144 appropriate?

No issues.

11. Does the relocation of the guidance pertaining to administrative services provide greater clarity?

We refer to our comments in response to Q6, which also apply to proposed paragraph 291.150.

Request for General Comments

(a) *SMPs*—The IESBA invites comments regarding the impact of the proposed changes for *SMPs*, especially the changes regarding management responsibilities.

SMPs - we have included various points in responding to the questions where applicable.

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(b) *Preparers (including SMEs), and users (including regulators)*—The IESBA invites comments on the proposed changes from preparers (particularly with respect to the practical impacts of the proposed changes), and users.

N/A

(c) *Developing Nations*—Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposed changes, in particular, on any foreseeable difficulties in applying them in a developing nation environment.

N/A

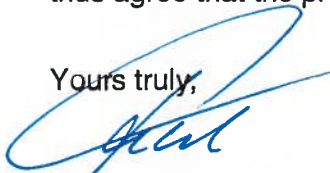
(d) *Translations*—Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposed changes.

No specific translation issues identified in regard to proposed changes. In general, some of the language could perhaps be written in a simpler style, but this is an issue for when the Code is revised.

(e) *Effective Date*—The IESBA proposes that the effective date for the changes will not be less than 12 months after issuance of the final changes. Earlier application would be permitted. The IESBA welcomes comment on whether this minimum period would be sufficient to support effective implementation of the changes.

We do not believe the changes will reflect a change in behavior in Germany and thus agree that the proposals concerning the effective date are acceptable.

Yours truly,



Klaus-Peter Feld
Executive Director



Helmut Klaas
Director European Affairs