



Stellungnahme zum IESBA Exposure Draft *Proposed Revisions Pertaining to Safeguards in the Code – Phase 2 and Related Conforming Amendments*

Die WPK hat mit Schreiben vom 25. April 2017 gegenüber dem International Ethics Standards Board for Accountants (IESBA) zu dessen Exposure Draft *Proposed Revisions Pertaining to Safeguards in the Code – Phase 2 and Related Conforming Amendments* wie nachfolgend wiedergegeben Stellung genommen.

The Wirtschaftsprüferkammer (WPK) is pleased to take this opportunity to comment on the above mentioned Exposure Draft and the proposed changes to the Code of Ethics for Professional Accountants (hereinafter referred to as “the ED” and “the Code”, respectively).

We would like to address some general comments first and provide you with our responses to the questions of the ED subsequently.

General Comments to the Exposure Draft

Overall we think that IESBA did a great job regarding the adaption of the safeguards requirements to the new structure of the Code. The requirements are clearly separated from the application material and the introductory passages in each subsection clearly relate to the fundamental principles of the Code. In particular we welcome the increased prominence of the requirements on avoiding management responsibilities as well as the explanations on materiality and multiple Non-Assurance Services. From our point of view, these amendments contribute to an increased understandability, clarity and enforceability of the Code. Therefore we agree with the changes stipulated for in the ED.

Nevertheless we have concerns in relation to the “re-characterization” of some former safeguards as factors. This re-characterization increases the complexity of the Code and makes it more difficult especially for SMEs to understand the application of the safeguards approach. A clear distinction between factors relevant in evaluating the level of threat and safeguards applied in order to reduce the level of threat may not always be unambiguously possible. At least the documentation effort is expected to increase.

Furthermore we are quite uncomfortable with regard to the process of the safeguards and the related restructuring project. The division of the safeguards project into two phases, combined with the also two-phased restructuring project makes it difficult to assess the overall effect of the different changes on the Code. It is extremely challenging for respondents to assess the potential impact that these projects might have on the clarity of the Code. As we already explained in our comment letter to Safeguards Phase 1, we would have preferred a step by step approach looking at the structure of the Code first before changing the safeguards approach. The multiple cross-references from one ED to the other one and vice versa make it extremely difficult to undertake an overall assessment.

In addition, we hear from our members that it has become increasingly difficult to keep up with the pace of changes which the Code has undergone over the previous years. The profession does urgently need time to digest the changes in order to carry out corresponding inhouse-implementation measures within their firms. The same is true for IFAC’s member organizations as most of them need to translate the changes in a first step before being able to display efforts as to how to implement the changes in their respective national laws. Particularly the latter process is usually time-consuming since it requires an involvement of the relevant stakeholders and is usually subject to an approval process by an oversight authority. When the IESBA, e. g., needs many years for the finalization of a new standard, the stakeholders cannot be expected to implement the new standard in a fraction of the time that it needed IESBA to issue the standard.

Even though we were glad to note during the last IESBA meeting that any changes made after the completion of the restructuring process shall not become effective before June 15, 2020, we think that this period of time should be significantly longer given the tremendous effects the safeguards and restructuring changes will bring about for the profession. The profession is currently facing such a standards overload that is in our view detrimental to the global acceptance of international standards and the audit quality as such. We agree that there is always room for improving standards. However, we doubt that the extant Code could not be regarded as a high-quality standard and would be urgently in need for further improvements. In case we were wrong in this assessment, we would ask IESBA to provide the public with corresponding evidence.

We suggest that IESBA acts more strategically and devote more time to strategic and public interest matters instead of looking into details of the Code. We would also appreciate a shift from undertaking new changes to the Code towards increasing efforts to raise the awareness of the Code, providing separate guidance to selected emerging issues and monitoring its implementation around the world.

Responses to the Exposure Draft Questions

Section 600, Provision of Non-Assurance Services to an Audit Client

1. *Do respondents support the proposals in Section 600? If not, why not?*

In particular, do respondents agree with the proposal to extend the scope of the prohibition on recruiting services as described in paragraph 25(h) above to all audit client entities? If not, please explain why.

The current prohibition of providing **certain recruiting services** to audits of PIEs shall be extended by **R609.6** also to non-PIE audit clients. Irrespectively of the respective circumstances, non-PIE audit clients could no longer turn to their auditor for relatively routine assistance in recruiting a director or officer of the entity or senior management in a position to exert significance over the preparation of the client's accounting records or financial statements that will be subject to audit. We do not see a compelling need for the proposed extension of the prohibition in R609.6 to all audits in general. For many (smaller) non-PIEs the auditor is the most appropriate person to assist in the recruitment of key personnel. Accordingly we do not see the potential for a significant self-interest threat where relatively routine assistance such as seeking possible candidates and performing reference checks are concerned.

Even though proposed **R 600.8** is derived from paragraph 290.162 of the extant Code, we suggest contemplating about a relaxation of this requirement especially in an SME environment. The requirement for the firm to ensure that the client's management delegates an individual who possesses suitable skills, knowledge and experience to be responsible at all times for the client's decisions and to oversee the non-audit service will be problematical for any entity that lacks such an individual. More flexibility should be added in prescribing the manner in which this responsibility is acknowledged by the audit client.

Section 950, Provision of Non-Assurance Services to an Assurance Client

2. *Do respondents support the proposals in Section 950? If not, why not?*

Please refer to our general comments regarding the "re-characterization" of certain safeguards as factors.

Examples of Safeguards

3. *Do respondents have suggestions for other actions that might be safeguards in the NAS and other sections of the Code that would meet the revised description of a safeguard?*

It is important to stress that a safeguard must adequately match the level of threat imposed in an individual situation. The circumstances for non-PIE clients are normally different from those applying to PIE audit clients. Accordingly the measures taken to eliminate or reduce the threat to an acceptable level are generally more rigorous for audits of larger and PIEs audit clients.

Conforming Amendments Arising from the Safeguards Project

4. *Do respondents agree with proposed conforming amendments set out in:*

(a) Chapter 2 of this document.

(b) The gray text in Chapters 2–5 of Structure ED-2.

We believe that the meaning of the term “**questionable issues**” as introduced in 320.4A2 needs to be clarified.

We think that the “re-characterization” of (competently performed) quality control policies and procedures from safeguards to factors (320.5A2) is inappropriate since the quality control system is the outcome of active doing of the audit practice.

In some jurisdictions (Germany e.g.) the professional accountant must obtain client permission before contacting and exchanging information with the existing or predecessor professional accountant – unless required in certain situations by law. We therefore suggest a corresponding indication in 320.6A3.

5. *Respondents are asked for any comments on any other matters that are relevant to Phase 2 of the Safeguards project.*

No Comments.

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