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Stellungnahme zum Exposure Draft *Proposed Revisions Pertaining to Safeguards in the Code – Phase 1*

Die WPK hat mit Schreiben vom 21. März 2016 gegenüber dem International Ethics Standards Board for Accountants (IESBA) zu dessen geplanten Änderungen des Code of Ethics zur Anwendung von Schutzmaßnahmen (*Exposure Draft Proposed Revisions Pertaining to Safeguards in the Code – Phase 1*) wie nachfolgend wiedergegeben Stellung genommen:

We are pleased to take this opportunity to comment on the IESBA Exposure Draft *Proposed Revisions Pertaining to Safeguards in the Code – Phase 1* (hereinafter referred to as “ED”). We would like to address some general comments first and provide you with our responses to the questions of the ED subsequently. As the German profession does not include professional accountants in business, we would like to limit our comments to those elements of the ED that effect auditors and professional accountants (PAs) in public practice.

General Comments to the Exposure Draft

WPK welcomes IESBA’s intention to revise the provisions pertaining to safeguards. However an overall assessment of the effects will be possible only after all phases have been completed. Compared to the extant provisions pertaining to safeguards we appreciate shorter sentences and a clear separation of application material and requirements. However, some explanations are very detailed, partly repeating and partly self-explanatory.

Moreover we would like to add the following general concerns:

Overlap with IESBA’s project to restructure the Code.

The division on 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 EDs on the IESBA Code of Ethics.

It is quite challenging for respondents to assess the potential impact that these projects might have on the clarity of the Code. We would have preferred a step by step approach looking at the structure of the Code first before changing the safeguards approach.

Change in meaning of safeguards in comparison to extant Code.

The changed approach describes safeguards as “actions” taken by the professional accountant to “effectively eliminate threats...”(120.7 A2) and addresses, separately as sort of another category, “certain conditions, policies and procedures established by the profession, legislation, regulation, the firm or employing organization” (120.5 A4) that “might impact the professional accountant’s evaluation of threats...” (120.6 A3). This approach might lead to confusion, and in particular makes it more difficult for SMPs, to understand and apply the conceptual framework. Furthermore, in addressing these “certain conditions” twice, first in the subsections on identification and then in the one on evaluation of the threats, it is unclear whether the PA is expected to consider such conditions, if they exist, in the phase where a threat is to be identified, or in the phase of threat-evaluation. This also raises the question how a PA is expected to document his or her assessment, if required to do so. Following this change of the approach, we suggest the Board to clarify that the requirement to identify threats does not include those threats which were already eliminated due to the existence of “certain conditions, policies and procedures established by the profession, legislation, regulation, the firm or employing organization”.

Responses to the Exposure Draft Questions

1. *Do respondents support the Board’s proposed revisions to the extant Code pertaining to the conceptual framework, including the proposed requirements and application material related to:*

(a) Identifying threats;

(b) Evaluating threats;

(c) Addressing threats;

(d) Re-evaluating threats; and

(e) The overall assessment.

If not, why not?

We basically support the proposed revisions to the extant Code pertaining to the conceptual framework, including the proposed requirements and application material.

However we would like to make the following remarks:

Evaluating threats

The introduction of “certain conditions, policies and procedures established by the profession, legislation, regulation, the firm or employing organization” (120.5 A4) that “might impact the professional accountant’s evaluation of threats....” (120.6 A3) in the phase of evaluating the threats as sort of a (new) category different from (extant) safeguards, may create more confusion than clarity for the PA in his or her effort to apply the conceptual approach (see our general comments).

Addressing threats

As currently drafted the measures to address an identified threat under (c) appear to be of equal quality or as alternatives to those safeguards provided under (a) and (b). We, however, consider the decline or discontinuation of a service or activity to be a measure of last resort. These measures can be better addressed in R 120.7 A1. We also would like to draw the attention of the Board to the fact, that in some jurisdictions, like Germany, such measures are not available, e.g. in case of a statutory audit. The Board should therefore consider to add the term “unless precluded from doing so by law or regulation” to such a measure, regardless where they are addressed.

Re-evaluating threats

We concur with the general requirement to re-evaluate threats in case that new information or facts and circumstances arise. However, we considered this re-evaluation to be already inherently provided in the provisions of the extant Code. As now drafted in the ED, the requirement to re-evaluate the threats together with the respective application material appears to establish a new routine activity of its own, rather than being considered a conditional one. Overall we, therefore, believe that this section does not bring about any substantial change, nor does it facilitate the readability of the Code and the application of the conceptual framework. Alternatively, a clarification that the evaluation is not a one-time exercise and new information or facts and circumstances need to be considered when evaluation the threats, might be sufficient when added in the evaluation section.

2. *Do respondents support the proposed revisions aimed at clarifying the concepts of (a) “reasonable and informed third party;” and (b) “acceptable level” in the Code. If not, why not?*

There is no need to clarify the concept of „reasonable and informed third party“. Due to the inherent subjectivity in this concept (that will be even highlighted through the reference to a “hypothetical person”) such a detailed explanation does not add any additional value. It rather appears to be contradictory to the principle-based nature of the Code and to the objective of clarity.

The third party test is highly subjective, and the interpretation is likely to be impacted by cultural influences, which may lead to inconsistent application of the Code by auditors and third parties.

3. *Do respondents support the proposed description of “safeguards?” If not, why not?*

We basically support the proposed description of “safeguards”.

In our view the proposed description is expected to have no significant change for the PA. The description of safeguards under the current Code (“*Safeguards are actions or other measures that may eliminate threats or reduce them to an acceptable level*”) seems to be wider than the proposed description of safeguards (“*Safeguards are actions, individually or in combination, that the professional accountant takes that effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level*”). In our understanding in the end the applied measures must be effective under both “versions” in order to reduce a certain threat to an acceptable level.

4. *Do respondents agree with the IESBA’s conclusions that “safeguards created by the profession or legislation,” “safeguards in the work environment,” and “safeguards implemented by the entity” in the extant Code:*

(a) *Do not meet the proposed description of safeguards in this ED?*

(b) *Are better characterized as “conditions, policies and procedures that affect the professional accountant’s identification and potentially the evaluation of threats as discussed in paragraphs 26–28 of this Explanatory Memorandum?”*

If not, why not?

a) We agree with IESBA’s conclusions.

b) We basically agree with IESBA’s conclusions, provided that the consideration of these “conditions...” is adequately clarified.

In addition we refer to our comments above (general and Q 1) regarding the consideration of “certain conditions, policies and procedures established by the profession, legislation, regulation, the firm or employing organization”.

5. *Do respondents agree with the IESBA’s approach to the revisions in proposed Section 300 for professional accountants in public practice? If not, why not and what suggestions for an alternative approach do respondents have that they believe would be more appropriate?*

We generally agree with IESBA's approach to the revisions in proposed Section 300 for professional accountants in public practice.

However, when comparing the Sections 120 and 300, there are some inconsistencies with respect to the question in which phase of the process "certain conditions, policies and procedures established by the profession, legislation, regulation, the firm or employing organization" have to be considered. Section 300 suggests the PA to consider these conditions when evaluating the threats whereas Section 120 recognizes that such conditions may impact the identification of the threats as well as the evaluation. Overall, we consider the more detailed descriptions of the different types of threats as well as of the "facts and circumstances" helpful.

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.

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