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Stellungnahme im Rahmen der Konsultation des IESBA zum Thema „Langjährige Beziehungen von Mitarbeitern zum Abschlussprüfungs- oder Prüfungsmandanten“

Die WPK hat mit Schreiben vom 12. November 2014 gegenüber dem International Ethics Standards Board for Accountants (IESBA) im Rahmen der Konsultation „Langjährige Beziehungen von Mitarbeitern zum Abschlussprüfungs- oder Prüfungsmandanten” wie nachfolgend wiedergegeben Stellung genommen.

General Comments

WPK basically welcomes IESBA’s efforts to enhance independence in mind and in appearance in order to increase the credibility and authenticity of the profession vis-à-vis of stakeholders. However, with respect to the ED, we have several concerns.

As IESBA is aware, the EU recently passed the audit legislation (the EU Audit Reform) taking effect in the 31 countries of the European Economic Area. Although IESBA´s Explanatory Memorandum does mention the EU Audit Reform, we doubt whether the content and dimension of this reform have been sufficiently considered by IESBA when issuing the ED.

We do not support any provisions on the “Long Association of Personnel with an Audit or Assurance Client” that are stricter than the EU Audit Reform.

The ED refers to the “familiarity threat” as being the reason for strengthening the extant provisions on the internal rotation. However – as far as recognizable from the ED – it appears that

IESBA has not sufficiently taken into account that the EU Audit Reform will introduce, among others, mandatory firm rotation as a requirement for all audit firms performing audits of public interest entities (PIEs) as a primary safeguard to address the threats to independence that may arise from long association with an audit client. Moreover, the EU Audit Reform also strengthens internal rotation by extending the cooling-off period from two to three years and introduces a requirement for audit firms to establish systems for a gradual rotation of audit personnel.

In this respect we believe that there is a need for IESBA to revisit the provisions that relate to the audit of PIEs and to take a holistic approach in considering the various safeguards that are available to address the threats to independence that may result from a long association with an audit client. Such an approach should consider the impacts and interactions the different requirements, and the combination of them, might have for safeguarding auditors' independence as well as it should analyse the potential trade-offs these measures may have with respect to audit quality.

Furthermore, the EU Audit Reform will also bring about a significant increase in the number of entities that will be treated as PIEs. According to a survey conducted by the Federation of European Accountants (FEE) in October 2014 currently more than 28,000 entities have to be considered as PIEs; only around 7,000 of them are listed entities. The number of non-listed PIEs might even increase depending on how EU member states implement a respective option provided by the EU Audit Reform. It should be noted that a significant number of the non-listed PIEs are smaller entities audited by SMPs. This given, we are concerned about the approach taken by the ED, i.e. applying the same requirements for all audits of PIEs, regardless whether the PIE is a listed entity, an entity with complex international operations, or a small national bank or insurance company, or even a municipality-owned hospital. Against this background, IESBA´s approach in proposing requirements for internal rotation, which are partly going beyond EU legislation, are very detailed and to some extent overly complex, and would apply to any audit of a PIE, may lead to such a regulatory density which would hardly be controllable by the profession. In particular this would significantly affect SMPs and might bring about a competitive disadvantage for them.

Another issue of our general concern is the concept of the amendments. We recognize that many additional suggestions in the ED probably originate from the desire to meet a potential necessity of distinction and/or guidance. However, from our point of view, one of the main achievements of the Code so far has been its principles-based approach. We have to note with increasing concern that the Code appears to get incrementally detailed and runs the risk of moving gradually towards a rules-based approach, even though we have experienced that IESBA is basically committed to a principles-based approach.

Specific Comments

General Provisions

1. *Do the proposed enhancements to the general provisions in paragraph 290.148 provide more useful guidance for identifying and evaluating familiarity and self-interest threats created by long association? Are there any other safeguards that should be considered?*

   In our view, the added guidelines are too detailed and overly complex. They may even bring about inconsistencies or at least create confusion when compared with the general definition of the "familiarity threat as provided in par. 100.12 (d) of the Code. For example, it is difficult to understand why "…an individual's long association with […] the financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements…" (par. 290.148A) may create a "familiarity threat" compared to a long association with the client or the client's management, respectively. Similarly, it can be questioned whether "…the nature or complexity of the client's accounting and financial reporting issues and whether they have changed…" (par. 290.148B) is a factor that may increase or reduce the significance of familiarity or self-interest threats as stated in par. 290.148C.

   As already explained in our general comments above, we would also like to note that external rotation, a requirement for auditors and audit firms to introduce a system of gradual rotation as well as a tendering need to be considered as alternative safeguards to mitigate the threats that may arise from familiarity and self-interest. We believe that these safeguards and their application have to be taken into account by applying a more holistic approach when assessing the need for an audit firm to rotate individuals. Otherwise, if separately applied, taken together these safeguards might bring about an adverse impact on audit quality due to a lack of knowledge and expertise of the client and its business within the audit team.

2. *Should the General Provisions apply to the evaluation of potential threats created by the long association of all individuals on the audit team (not just senior personnel)?*

   We disagree with the underlying assumption that **all** individuals on the audit team may be equally affected by familiarity and self-interest threats, as significant decisions with respect to the audit opinion are taken (as a general rule) by senior personnel. Furthermore, the influence on the outcome of the audit that personnel with a junior role may have can be con-

sidered to be relatively limited. Thus, we do not see the need for going beyond the existing provisions.

On the other hand, if adopted, the proposed requirements would cause a disproportionate burden for audit firms as they would have to implement comprehensive examination and surveillance measures (including full documentation and total traceability) to demonstrate compliance with the requirements of the Code and to avoid negative consequences whether internally or by oversight authorities.

3. *If a firm decides that rotation of an individual is a necessary safeguard, do respondents agree that the firm should be required to determine an appropriate time-out period?*

   We agree with the proposal.

Rotation of KAPs on PIEs

4. *Do respondents agree with the time-on period remaining at seven years for KAPs on the audit of PIEs?*

   There is, as far as we know, no evidence that the extant time-on period would not be sufficient to ensure conscientious and independent audits. Any change of the Code should be based on sound facts which we are not able to recognize here. Therefore, we see no need to change the time-on period.

5. *Do respondents agree with the proposal to extend the cooling-off period to five years for the engagement partner on the audit of PIEs? If not, why not, and what alternatives, if any, could be considered?*

   According to Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities the Key audit partners responsible for carrying out a statutory audit shall cease their participation in the statutory audit of the audited entity not later than seven years from the date of their appointment. They shall not participate again in the statutory audit of the audited entity before **three** years have elapsed following that cessation.

   We do not support a cooling-off period that extents the three-year period just recently considered to be appropriate after many years of intensive discussions within the European Parliament and the Council. We are of the view that the Code should not aim to be more re-

strictive than the European lawmaker, in particular when considering the additional safeguards imposed to mitigate the familiarity threat.

As already explained in our general comments above, we would like to draw your attention to the fact that due to the new EU legislation the amount of PIEs other than listed entities will significantly increase, including many small entities audited by SMPs. In particular those SMPs may find it difficult, if not impossible, to comply with the requirements proposed in the ED due to a limited number of partners.

6. *If the cooling-off period is extended to five years for the engagement partner, do respondents agree that the requirement should apply to the audits of all PIEs?*

Referring to our remarks under question No 5 we do not support the extension of the cooling-off period to five years for the engagement partner on the audit of a PIE. The extension of the cooling-off period to all PIEs would have a significant impact on SMPs and lead to a greater competitive disadvantage for them.

7. *Do respondents agree with the cooling-off period remaining at two years for the EQCR and other KAPs on the audit of PIEs? If not, do respondents consider that the longer cooling-off period (or a different cooling-off period) should also apply to the EQCR and/or other KAPs?*

Notwithstanding the other comments we made elsewhere in this letter, we agree not to extend the cooling-off period for KAP.

In addition, we believe that making a distinction between the Engagement Partner and other Key audit partners (KAPs) is not justified. The approach taken in the proposal is overly complex, and thus would make it difficult for auditors and audit firms to comply with the different requirements posed by regional or national legislation and the Code.

The new EU Regulation does not provide for different cooling-off periods for the Engagement Partner and “other Key audit partners”.

In addition we would like to suggest that the Key audit partner should be determined on group audit level. Only the group auditors do have the overview to assess the relevant partners who make key decisions.

As the EQCR does neither participate in the engagement nor make any substantial decisions for the engagement team an extension of the cooling-off period would be in our view

not justified. Instead of this, the knowledge of the clients´ business and the insights of critical audit issues are of particular importance for the role of the EQCR.

8. *Do respondents agree with the proposal that the engagement partner be required to cool-off for five years if he or she has served any time as the engagement partner during the seven year period as a KAP?*

   No. As already explained above (question No 7), in our view the cooling-off period should not be extended to five years for any KAP. Requiring the engagement partner to cool-off for five years if he or she has served any time as the engagement partner during the seven year period as a KAP is mere overregulation. It may lead to excessive situations, in particular in those cases where the appointment as engagement partner was only for a very short period of time or on a temporary basis.

9. *Are the new provisions contained in 290.150C and 290.150D helpful for reminding the firm that the principles in the General Provisions must always be applied, in addition to the specific requirements for KAPs on the audits of PIEs?*

   In our view the new provisions contained in par. 290.150C and 290.150D are helpful.

10. *After two years of the five-year cooling-off period has elapsed, should an engagement partner be permitted to undertake a limited consultation role with the audit team and audit client?*

    Although we agree with the overall rationale behind this proposal, we consider the provision in par. 290.150B as too detailed, rules-based and overly complex. In particular, we question whether it is practical to allow a limited consultation role only after the first two years of the five year cooling-off period have elapsed. In fact, the initial years of an engagement are those where an incoming partner might benefit from consultation with the former engagement partner, provided the consultation is of a very limited nature (e.g. such as proposed in the ED) and does not result in influencing the outcome of the audit as such. A complete ban for any consultation, however, might even have an adverse impact on audit quality. We suggest IESBA to revisit this proposal by taking a more risk based approach to the issue of former engagement partner’s contribution to consultations.

    Please note that this comment is subject to the fact that we do not support the extension of the cooling-off period to five years. In this respect, we refer to our response to question No 5.

11. *Do respondents agree with the additional restrictions placed on activities that can be performed by a KAP during the cooling-off period? If not, what interaction between the former KAP and the audit team or audit client should be permitted and why?*

    We agree with the provisions proposed in par. 290.150A. With respect to other activities as addressed in par. 290.150B we refer to our response to question No 10 above.

12. *Do respondents agree that the firm should not apply the provisions in paragraphs 290.151 and 290.152 without the concurrence of TCWG?*

    We basically agree with the proposed amendments in par. 290.151 and 290.152 that an extension of the period must be permitted in rare circumstances.

Section 291

13. *Do respondents agree with the corresponding changes to Section 291? In particular, do respondents agree that given the differences between audit and other assurance engagements, the provisions should be limited to assurance engagements "of a recurring nature"?*

    We agree with the proposed amendments in Section 291, especially the limitation to assurance engagements "of a recurring nature".

Impact Analysis

14. *Do respondents agree with the analysis of the impact of the proposed changes? In the light of the analysis, are there any other operational or implementation costs that the IESBA should consider?*

    We do not agree with IESBA´s analysis of the impact of the proposed changes:

    The total EU comprises (according to a survey conducted by the Federation of European Accountants (FEE) in October 2014) nearly 28,000 PIEs, thereof nearly 7,000 listed entities.

    Any changes regarding the rotation period should be put in balance with the need for continuity, experience and knowledge of the clients business and therefore the audit quality. Any additional burden to the audit firm or to the individual auditor is accompanied by an increase in costs and disruptions to the client.

    The proposed amendments are not likely to bring incremental benefits to the audit quality or to the trust in the independence of the auditor, and the effects of these amendments must

be carefully considered in advance. It is not obvious that IESBA considered this vast amount of audit clients and audit firms in the EU which would be affected by the proposed amendments.

Against this background we can not conclude that the impact assessment is carefully carried out with a sense of proportion.

Request for General Comments

In addition to the request for specific comments above, the IESBA is also seeking comments on the following general questions:

(a) *Small and Medium Practices (SMPs) – The IESBA invites comments regarding the impact of the proposed changes for SMPs.*

The proposed changes lead to a substantial amount of extra work and additional economic burdens for all audit firms and auditors especially to Small and Medium Practices due to limited human resources especially at Partner-level.

(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.*

As already stated in our last comment letter of August 14, 2014 to the ED “Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit

Clients“, due to the high importance of the Code and its worldwide (de facto) binding effect on the profession, one might think about translating the Code and the present changes into the respective language of important jurisdictions by IFAC itself. This could also lead to greater acceptance and use of the Code.

(e) *Effective date – Recognizing that the proposed changes are substantive, would the proposal require firms to make significant changes to their systems or processes to enable them to properly implement the requirements? If so, do the proposed effective date and transitional provisions provide sufficient time to make such changes?*

Based on the vast number of PIEs in Germany and in the EU we suggest an alignment of the IESBA transitional provisions with the transitional provisions of the EU Audit Reform in order to smooth the rotation obstacles within the audit firms and audit clients.

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.
