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IDW Code of Conduct for German Public Auditors

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1. Introduction

Wirtschaftsprüfer [German Public Auditors, hereinafter “auditor(s)”] play an important role in a sustainable market economy committed to fulfilling economic, environmental and social sustainability goals: They help to strengthen the trust society places in the lawful conduct of companies. They also enable market participants to take informed, well-founded decisions.

The trust of the public, of business partners and of others employed within our own profession depends on the conduct of every single auditor. The particular responsibility of members of our profession is to act both in the public interest whilst at the same time satisfying the needs of a specific client. The fulfilment of their duties may not be compromised by auditors’ self-interests, whether of a business nature or of any other nature. To counter these potential conflicts of interest, the Code presents a set of values as orientation for auditors’ conduct.

The fundamental characteristics and values of the auditing profession are objectivity through independence, integrity, being open to new developments and expectations, professional scepticism, professional competence and due care (technical expertise), confidentiality and professional behaviour.

The Code is a guide to trustworthy conduct on the part of auditors. It describes both for auditors and for the public, the aforementioned characteristics and values, which are in accordance with an auditor’s professional oath, with German, European and international law, with the professional statutes for auditors/ licensed auditors¹, and with professional standards. Compliance with legal and professional rules is monitored by the auditor oversight authorities.

The Code applies to all the activities of auditors, including audits of financial statements and other assurance engagements, tax consultancy and business consultancy services. Where special provisions apply to any individual activity, the Code deals with this separately.

The IDW’s Board of Directors recommends that the auditing profession adopt this Code of Conduct once the consultation process is complete. Those who commit to the Code will live by the principles set forth in the Code of Conduct. They shall ensure that employees and contracted staff are regularly informed about the ethical aims and principles of conduct within this Code and are to instruct them to adhere thereto.

Section 2 below, presents the values and obligations of each individual member of the profession. Section 3 picks up and expands upon these principles as applicable for the management of auditing firms.

2. Our principles of conduct as auditors

2.1 We assume social responsibility.

We carry out our activities assuming our social responsibility in that we strengthen the

¹ Vereidigter Buchprüfer [Licensed Auditor in Public Practice authorized to perform only statutory audits of annual financial statements of mid-sized “Gesellschaften mit beschränkter Haftung” (GmbH) – German limited liability companies]

functionality of the sustainable market economy, which is committed to fulfilling economic, environmental and social sustainability goals.

2.2 We act with integrity.

Integrity is the personal foundation for our actions – both within and outside the exercise of our profession.

In the context of professional and business relationships we understand integrity as honesty, sincerity and the willingness to defend our values. The values set out in this Code also guide our actions in situations where conflict is involved.

We behave fairly and honestly. We avoid any kind of discrimination or discreditation.

In our business relationships, we provide clear and easily comprehensible information concerning our services, abilities and experience. The information we provide to our clients and to the public is always provided in accordance with the applicable legislation. Honest behaviour includes respecting our competitors and adhering to fair business practices.

The legislature has assigned to us, and reserved for us, the task of performing statutory audits of financial statements. We are conscious of the special responsibility and professional obligations attaching to this, and also beyond this reserved role. We report truthfully on the results of our audits and assurance engagements, even if our conclusions may meet with criticism or be disadvantageous to ourselves or to our client.

We monitor and control our performance and our results. We admit to errors and learn from them.

2.3 We make independent, objective decisions.

Independence shapes our conduct and is thus an essential quality for an auditor. It forms the foundation underpinning the objectivity of our work.

We form our professional and business opinions free from bias, self-interest and undue influence from our clients or third parties. We arrive at our determinations, draw our conclusions and make our decisions impartially, objectively and without regard to personal relationships. We behave impartially when drawing professional conclusions in the context of preparing long-form audit reports and expert opinions or in serving in the role of an expert.

For audits of financial statements, we do not conclude on anything for which we have been involved in its generation or development. We do not own any stakeholding in the entities subject to audit, nor do we have any personal dependencies with them or their representatives or officers.

We continuously reassess our independence – prior to accepting an engagement, throughout the entire period of engagement performance and up to the issuance of our report.

2.4 We perform our work with due care and conscientiously, with a high level of professional expertise.

Our exercise of due care and conscientious attitude means that we only accept engagements if we – individually or as a team – have the requisite technical expertise, the necessary physical, technological and temporal resources and the required personnel to perform the work properly.

Sustainability and digitalisation, and the required risk awareness related to these topics, are an integral part of our technical expertise. We take a forward-looking approach in developing our technical expertise anticipating new challenges. We understand our obligation to continuing professional development as a commitment to life-long learning.

Careful analysis forms the foundation for our professional activities. For this reason, in fulfilling our contractual relationship, we also take account of relevant information which is sent to us by third parties or anonymously, and carefully consider its credibility.

If we, as auditors, are subject to scope limitations such that we are no longer able to perform our work with due care and conscientiously, we decline the engagement.

The starting point for any engagement to audit financial statements is a complete and comprehensive understanding of the business model of the entity subject to audit. We formulate our long-form audit reports and auditors' reports clearly so that the respective addressee can assimilate the content without misunderstanding.

If, pursuant to § [Article] 318 Abs. [paragraph] 6 of the HGB [Handelsgesetzbuch: German Commercial Code], we cannot terminate an engagement for an audit of financial statements we reflect the appropriate consequences in reporting on our audit.

Even if an engagement which is not part of an audit of financial statements is subject to a scope limitation, such that we are expressly not required to evaluate documents as to their propriety and plausibility, we do not disregard obvious indications that give us reason to doubt the propriety of the documents.

2.5 We exercise professional scepticism.

In performing audit engagements, we exercise professional scepticism to form an opinion with reasonable assurance. To this end, we comply with e.g., the Generally Accepted Principles for Audits of Financial Statements as determined by the IDW. The IDW audit pronouncements, individually and in their entirety, clarify what is expected of auditors in exercising professional scepticism. Based on our professional expertise, in specific audit engagement circumstances we apply our professional judgement in making independent decisions as to any additional measures or departures from requirements necessary to form an opinion with reasonable assurance.

When compiling expert opinions, we also challenge the completeness, credibility, appropriateness and reliability of significant documents.

2.6 We provide responsible tax advice.

As advisors on tax matters, we are an independent part of the system for upholding tax law. We promote a constructive relationship between taxpayers and the tax authorities. In the interests of the common good, we are committed to preventing the abusive use of tax planning arrangements to the detriment of the State.

We help our clients to assess their economic activities keeping sight of the tax consequences of their decisions. In accordance with our legal obligations, we appraise them of those tax planning arrangements that are permissible. We call upon them to comply with tax law and other regulations. We inform them if a legal position is ambiguous such that the legality of their tax planning arrangements could be viewed as borderline and point out the financial and reputational risks.

We refuse to be involved in violations of tax regulations.

2.7 We maintain confidentiality.

We maintain professional confidentiality to protect the client's right to privacy.

We do not tolerate any illegal conduct on the part of our clients. Should we receive any information that causes us to doubt the legality of our clients' conduct, we urge them to investigate the matter and take appropriate measures.

In our audits of financial statements, maintaining confidentiality is in the public interest, as it allows the client a protected space in which they can entrust the auditor with all relevant information.

If our obligation to maintain confidentiality is waived by the client or voided in law, we report to external parties. We report in our long-form audit report on facts that reveal serious violations of the law by the management or employees of the entity subject to audit. When auditing public interest entities, if the client does not dispel our doubts concerning lawful conduct, we inform the BaFin [Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority)] in accordance with the statutory reporting obligations and, in the case of criminal offences or administrative offences, we also inform the responsible law enforcement agency.

3. Our principles for managing an audit firm

An audit firm's management ensures that all managerial staff and employees act in accordance with this Code, whether or not they are members of the profession, and facilitates their compliance. Every individual with management responsibility serves as a role model ("tone at the top"). We take the necessary measures, taking into consideration the structure and requirements of the particular firm.

3.1 We put people centre-stage.

We create a safe, positive and encouraging working environment.

We help employees and managers to apply their individual strengths and to invest in their personal and professional development so they can perform to the best of their abilities. We take their interests into account. We offer employees a safe working environment and promote a culture in which we treat one another with mutual respect, courtesy and fairness. We encourage open communication that values and includes openly addressing the opinions of others. We motivate our employees to advocate for the profession outside the confines of their daily work and to contribute to its further development.

Diversity and freedom from discrimination are important to us. Diversity – in age, ethnic origin and nationality, gender identity, physical and mental ability, religious affiliation and personal convictions (providing these do not conflict with the fundamental basis of a free democracy), sexual orientation, cultural identity and social background – enriches us personally and in our professional activities.

We support employees in combining their private and professional interests, for example in determining their working hours and by allowing mobile working.

3.2 We ensure the quality of our services.

We arrange our audit firm in such a way that we can perform all engagements to the level of quality required of, and expected by us, our clients, and the public.

With our quality management concept, our goal is to live up to the trust placed in the quality of our services by our clients and the public in, especially, the audits of financial statements.

In order to achieve our quality goals, we follow a systematic and continuous process of quality management. We support the monitoring of these processes by the supervisory authorities.

We attach the greatest importance to creating a positive quality environment. We require our employees to comply with the legal and professional rules and our own additional quality requirements, including always exercising professional scepticism in the performance of audit and assurance engagements.

We inform our employees promptly and at regular intervals about the legal and professional rules as well as our quality requirements.

To ensure the quality of our services, we are obliged to carry out internal and external consultations. We foster a culture where errors are seen as opportunities for change and improvement.

3.3 We encourage honest self-reflection.

We encourage our employees and managers to reflect on their own conduct in order to ensure this reaches high-quality standards and upholds the values of the profession. We

help them to develop professional scepticism and to maintain this, even in the face of resistance. We are there for one another and talk to one another about conduct requirements for the profession, our values and complex working situations.

3.4 We investigate internal conflicts and protect whistleblowers.

We help employees and managers to address and resolve internal conflicts (of interest) promptly. We take responsibility, provide active support and help with decision-making in order to prevent any illegal conduct or mistakes.

To support our work, we establish transparent and sustainable organisational structures in our audit firms, appropriate to the particular business model. By doing so, we ensure that employees have suitable possibilities to inform us, in a protected way, of any breaches of ethical requirements or any infringements of legal or professional rules. We encourage open communication, allowing queries and discussions on questionable matters, but also comply with the wish for anonymous reporting through an established whistleblower system.

3.5 We have a fair remuneration system.

Our remuneration system is long-term, rewards quality, is fair and is oriented to the particular firm. It is conducive to compliance with the Code of Conduct.

The remuneration system supports the work of responsible, critical and self-confident auditors and employees.

The remuneration structure in our firms takes due account of gender equality (“equal pay”).

3.6 We run our firms in a sustainable way.

We are committed to protecting the environment and upholding social standards. We ensure the sparing use of resources in all areas of our professional activity and reduce the burdens on people and the environment. We comply with occupational health and safety regulations and respect diversity and social engagement. We comply with all laws and regulations to protect people and the environment and expect the same of our external service providers and suppliers also. Our activities and actions are intended to ensure the long-term success and survival of our firms.