

16 March 2020

Mr. Ken Siong
Senior Technical Director
International Ethics Standards Board
for Accountants
529 Fifth Avenue, 6th Floor
New York
NY 10017, USA

submitted electronically through the IESBA website

Institut der Wirtschaftsprüfer
in Deutschland e. V.

Wirtschaftsprüferhaus
Tersteegenstraße 14
40474 Düsseldorf
Postfach 32 05 80
40420 Düsseldorf

TELEFONZENTRALE:
+49 (0) 211 / 45 61 - 0

FAX GESCHÄFTSLEITUNG:
+49 (0) 211 / 4 54 10 97

INTERNET:
www.idw.de

E-MAIL:
info@idw.de

BANKVERBINDUNG:
Deutsche Bank AG Düsseldorf
IBAN: DE53 3007 0010 0748 0213 00
BIC: DEUTDE33XXX
UST-ID Nummer: DE119353203

Re.: Exposure Draft, Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers

Dear Ken,

We would like to thank you for the opportunity to provide the IESBA with our comments on the Exposure Draft “Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers”, hereinafter referred to as “the draft”.

In the Appendix to this letter we respond to the individual questions raised in the Explanatory Memorandum. We have summarized our major issues below in the body of this letter.

We agree that the IESBA should address the issue of the objectivity of engagement quality reviewers in the IESBA Code in the public interest. To this effect, we believe that requirements relating to the objectivity of such reviewers ought to be placed in the Code – not in ISQM 2, which relates to quality management of engagement quality reviews. We do not believe the arguments provided in the Explanatory Memorandum as to why such requirements ought to be in ISQM 2 rather than the Code to be convincing.

While we agree with the general direction of proposed guidance in the draft on objectivity, we are concerned with the examples given of threats to objectivity and of safeguards to address those threats because these examples are inherently disadvantageous to small and medium-sized practices and may even be considered to be anti-competitive for such small practices.

GESCHÄFTSFÜHRENDER VORSTAND:
Prof. Dr. Klaus-Peter Naumann,
WP StB, Sprecher des Vorstands;
Dr. Daniela Kelm, RA LL.M.;
Melanie Sack, WP StB

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We would be pleased to provide you with further information if you have any additional questions about our response, and would be pleased to be able to discuss our views with you.

Yours truly,

Melanie Sack
Executive Director

Wolfgang Böhm
Director Assurance Standards,
International Affairs

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Appendix

Specific Comments

1. Do you support the proposed guidance addressing the topic of the objectivity of an EQR?

We support the general direction of the proposed guidance addressing the topic of objectivity of an EQR. However, we do have a number of concerns with the nature of some of the examples in paragraphs 120.14 A2 and 120.14 A4 as they relate to smaller firms.

In relation to 120.14 A2 (a) we note that in a firm with only two senior personnel involved in audits in which each of them is an engagement partner, there may be no choice but to revert to the other engagement partner as an engagement quality reviewer.

In relation to (b), when no other qualified audit personnel are available in the firm other than the former engagement partner, then there may be no choice but to revert to the former engagement partner as the engagement quality reviewer. We are very concerned about expanding the example to engagement team members other than the engagement partner because this would exacerbate the ability of small firms to choose an engagement quality reviewer.

Similar considerations apply to (c). There are family-owned firms that perform audits of financial statements, which means that there may not be any senior audit personnel available to be an engagement quality reviewer other than another family member or someone with whom there is long association or a close relationship.

In relation to (d), we note that in many small firms the managing partner of the firm may be the engagement partner on a number of audits. It would therefore be impossible for such a firm to provide an engagement quality reviewer who does not have a direct reporting line to the engagement partner.

Overall paragraph 120.14 A2 addresses a number of threats that may be very difficult to resolve in small firm. In this respect, the examples of safeguards or actions to address the threats set forth in paragraph 120.14 A4 may not be practicable in a small firm. If there are too few senior audit personnel, a cooling-off period, reassigning reporting responsibilities, or seeking another reviewer to review specific areas of significant judgment may not be

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practicable. We are also not convinced that requiring small firms to seek an engagement quality reviewer outside the firm is an appropriate measure.

We would like to point out that the way these paragraphs are written, they could be construed as discriminating against small firms and could be regarded as constituting anti-competitive provisions against such firms.

2. If so, do you support the location of the proposed guidance in Section 120 of the Code?

We agree with the positioning of the proposed guidance in Section 120 of the Code.

3. Do you agree with the IESBA that it would be more appropriate for the IAASB to determine whether a cooling-off requirement should be introduced in proposed ISQM 2 as discussed in Section III.C above, and that the Code should not be prescriptive in this regard?

We believe it would be more appropriate for IESBA to determine whether a cooling-off period is needed and then to place that requirement, if any, in the Code because this matter relates to objectivity – which is only one aspect of quality. Requirements with respect to objectivity should be in the Code – not ISQM 2.

We do not agree with the arguments set forth in the Explanatory Memorandum as to why ISQM 2 rather than the Code is the appropriate place to address a cooling-off period. First, since the Code applies to a variety of engagements too, it seems to us that there is no barrier to having the Code, rather than ISQM 2, address any such requirements. Second, it is possible in these instances to remediate breaches of the Code through subsequent actions. Third, it would not have been difficult for ISQM 2 to refer to the requirement in the Code through its application material.

General Comments

- a) Regulators and Audit Oversight Bodies – The IESBA invites comments on the proposed guidance from an enforcement perspective from members of the regulatory and audit oversight communities.**

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As we are neither a regulator nor audit oversight body, we do not respond to this question.

b) Small and Medium Practices (SMPs) – The IESBA invites comments regarding the impact of the proposed guidance for SMPs.

We refer to our response to Question 1 of the Explanatory Memorandum.

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 guidance, and in particular, on any foreseeable difficulties in applying it in their environment.

As we are not from a developing nation, we do not respond to this question.

d) Translations – Recognizing that many respondents may intend to translate the final pronouncement for adoption in their environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposed guidance.

We are not responsible for translating the IESBA Code, but have not identified any potential translation issues.