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## **Consultation Paper: Professional Skepticism – Meeting Public Expectations**

Dear Ken

Dear Ladies and Gentlemen

The Wirtschaftsprüferkammer (WPK) is pleased to take this opportunity to comment on the above mentioned Consultation Paper (CP). We would like to highlight some general issues first and provide you with our specific responses to the CP questions subsequently.

### **General Comments**

We appreciate that IESBA takes stakeholders' concerns seriously and examines whether there is a need to further develop the Code of Ethics (Code). In our opinion the extant Code provides a robust, sound and well-balanced framework for the issues which the CP tries to address. On the other hand, we agree that it might be useful to better articulate in the Code what the public can reasonably expect from professional accountants. Such supplements to the Code would offer the opportunity for IESBA to clarify the role of professional accountants and draw the line with regard to responsibilities which the profession is not in charge of. IESBA should thereby contribute to reducing expectation gaps.

Against this background, we support IESBA to develop additional application material to the re-structured Code (paragraph 21). For this purpose the extant application material to the fundamental principles should be reviewed and examined as to whether improvements can be made. While doing so, IESBA might focus on the fundamental principle of "integrity", since in our view

the behavioral characteristics discussed in the CP and expected from professional accountants are in essence linked to this principle. In this context, it is essential that IESBA does not use new terminology which may (inadvertently) set up new responsibilities for all professional accountants, and thus widen the expectation gap, in particular with regard to the variety of non-assurance services professional accountants are providing.

In this respect, we strongly oppose to the use of the term “professional skepticism” in the Code as defined in the ISAs, and object to the introduction of new principles or terms in this context (paragraphs 18, 19, 20). The former would undermine IAASB international standards. New principles or terms would bear the risk of bringing about confusion of the profession and a considerable disruption of the understanding of the fundamental principles. Furthermore, the introduction of new terms or definitions would not be a proportionate action, since the extant fundamental principles form a sound and sufficient basis which could be enriched by additional application material only. This additional application material should be primarily located within the context of the fundamental principle of “integrity”.

While developing such new application material it is in our view important for the IESBA to pursue a holistic approach and to co-ordinate its efforts with the IAASB and the IAESB. Co-ordination with the IAASB is essential to ensure that IAASB standards do not get undermined and to avoid inadvertent interferences with the IAASB term and definition of “professional skepticism” which is and should remain reserved to an assurance engagement context, exclusively. With regard to the IAESB, changes to the Code need to be reflected in the educational standards to ensure that the content of the new application material reaches the profession in form of educational training measures. In addition, IESBA might raise awareness also among other stakeholders such as professional bodies and firms to contribute to ensuring that the new application material to the Code and the adjusted educational standards get applied by the profession.

## **Specific Comments**

### **Question 1**

*Paragraph 5 – Do you agree with the premise that a key factor affecting public trust in the profession is whether information with which a professional accountant is associated can be relied upon for its intended use?*

While we acknowledge IESBA’s intention to clarify behavioral characteristics of professional accountants, we disagree with the premise laid down in question 1.

Firstly, we caution the use of the term “*associated*”. The Code does not define this term so that its precise meaning remains unclear. As the information professional accountants produce widely differs depending on the activities or services provided, e. g. whether they provide assurance services or non-assurance services including the preparation of financial information, it needs to be very clear what is meant by “association”. In this respect we believe that the correct requirement to address this issue is already included in the extant Code (R111.2) which states that the professional accountant should not knowingly be associated with misleading information.

Secondly, in our view the decisive factor is whether the information can be “*used as intended*” rather than whether the information can be “*relied upon its intended use*”. This clarification is necessary to rightly describe and limit the responsibilities of professional accountants. There can be no legitimate public trust into the use of information other than it was designed for.

## **Question 2**

*Paragraph 10 – Do you agree with the behavior associated with public expectations of professional accountants? Are there aspects that should be included or excluded from the summary?*

We do not agree with the behavior associated with public expectations of professional accountants as described in paragraph 10 for two reasons: Firstly, the expectations in paragraph 7 on which the behavior in paragraph 10 is based, are misleading. Secondly, the expected behavior in paragraph 10 itself is questionable.

It is essential in our view that IESBA does not automatically address stakeholders’ concerns by means of adjusting the Code rather than diligently examining whether expectations are really reasonable. In this context, we would like to remind IESBA to its commitment to pursue an evidence-based standard setting approach as recently described in its Consultation Paper “Proposed Strategy and Work Plan, 2019-2023” (paragraph 29).

With regard to the behavior articulated in paragraph 10, we do have the following reservations:

The behavior of an “*impartial and diligent mindset*” in paragraph 10 a) is already covered by the fundamental principles of “objectivity” and “professional competence and due care”. We can hardly perceive any benefit from such a repetition which is only dressed in other words. Instead, we would suggest clarifying that these behavioral characteristics are required and covered by the application of the fundamental principles. In this context we would like to encourage IESBA to examine how its concept of a “right” mindset can fit into the different types of services provided by professional accountants as the degree of due care required varies with the nature of the services provided. IESBA rightly points out the need to introduce some sort of scalability when considering its concept “professional skepticism” (paragraph 14).

With regard to applying “*professional expertise*” in paragraph 10 b) the precise meaning of this requirement remains unclear to us. Either it is identical with the fundamental principle of professional competence. In this case we would again struggle to see any benefit in a repetition and would rather deem it as redundant. Or it has a different meaning in need of further explanation.

Further to the requirement of an “*evaluation of information*” in paragraph 10 b) we caution that extending a requirement to evaluate information in all circumstances would purely lead to unrealistic expectations and dilute the responsibilities of professional accountants. For engagements other than assurance or certain engagements (such as internal audit or other investigatory engagements) the professional accountant should only be required to evaluate the information obtained, if he/she has reason to believe that such an evaluation is necessary. However, the professional accountant should be required to remain alert for indications that might necessitate further evaluation; this is conceptually something different than establishing a requirement for further evaluation in all circumstances.

Finally, our last remark to paragraph 10 pertains to the unclear use of the term “*associated*”. In this regard, we refer to our explanations above to avoid repetitions (cf. question 1).

### **Question 3**

*Paragraphs 13 and 14 – Do you agree that the mindset and behavior described in paragraph 10 should be expected of all professional accountants? If not, why not?*

We agree that the “right” mindset and behavior should apply to all professional accountants. However, as illustrated under question 2, we disagree with the mindset and behavioral characteristics described in paragraph 10 (and paragraph 7).

Therefore, we encourage IESBA to explore, in consideration of our remarks above, a new approach to describe the “right” behaviour that can be applied to all professional accountants (in the form of the development of new application material).

### **Question 4**

*Paragraph 16 – Do you believe the fundamental principles in the Code and related application material are sufficient to support the behaviors associated with the exercise of appropriate “professional skepticism?”*

In principle, we think that the fundamental principles in the Code and related application material are sufficient to support the “right” behaviors. In our opinion the extant Code provides a robust, sound and well-balanced framework for the issues which the CP tries to address. In this context we would like to stress that the Code’s principles-based approach, one of the main strengths of

the Code, should be remained. Therefore, we were glad to note from the recently published Consultation Paper “Proposed Strategy and Work Plan, 2019-2023” (Foreword) that IESBA remains committed to the principles-based approach in the future.

However, as explained in our introductory remarks, we agree that it might be useful to better articulate in the Code what the public can reasonably expect from professional accountants. Such supplements to the Code would offer the opportunity for IESBA to clarify the role of professional accountants and draw the line with regard to responsibilities which professional accountants are not in charge of. IESBA should thereby contribute to reducing expectation gaps. Therefore, we would deem additional application material to expand upon the behavior which can be reasonably expected from professional accountants as useful. IESBA might here focus on the fundamental principle of “integrity”, since in our view the behavioral characteristics expected from professional accountants are in essence linked to this principle. In this context, it is essential that IESBA does not (inadvertently) set up new responsibilities for all professional accountants, and thus widen the expectation gap, in particular with regard to the variety of non-assurance services professional accountants are providing.

#### **Question 5**

*Paragraph 18 – Do you believe professional skepticism, as defined in International Standards on Auditing, would be the appropriate term to use?*

We disagree with the proposal to use the term professional skepticism as defined in the ISAs.

The IAASB designed that concept in relation to situations where a professional accountant is critically assessing evidence in order to achieve a level of assurance, and the IAASB limits it to assurance engagements, only. Using this concept for engagements other than in the assurance context would be inappropriate and turn the responsibilities of professional accountants upside down. IESBA would thereby not contribute to closing expectation gaps but instead to widening them and to diluting the concept of professional skepticism with serious impact on the IAASB (cf. question 9).

These possible implications illustrate the need of co-ordination for the IESBA with the IAASB.

#### **Question 6**

Paragraph 19 –

*(a) Do you believe that the Code should retain/use the term “professional skepticism” but develop a new definition?*

We do not agree with using the term “professional skepticism” but developing a new definition. One term with two different definitions would cause confusion among professional accountants. Nor is a new definition necessary. As explained under question 4, we think that the fundamental principles in the Code jointly with the development of new application material are sufficient to support the “right” behaviors.

*(b) If so, do you support a new definition along the lines set out in paragraph 19?*

We disagree with the definition as proposed in paragraph 19. Please refer to our detailed illustrations above (question 2), since we just highlight the core issues in the following:

The behavior of an “*impartial and diligent mindset*” is already covered by the fundamental principles of “objectivity” and “professional competence and due care”. We can hardly perceive any benefit from such a repetition which is only dressed in other words.

With regard to applying “*professional expertise*” we wonder if this is the same as professional competence and might therefore also be redundant.

The requirement of an “*evaluation of information*” in apparently all circumstances constitutes an unrealistic expectation that dilutes the responsibilities of professional accountants.

We also caution the use of the term “*associated*”.

*(c) If you do not support a definition along the lines described, could you please provide an alternative definition.*

As explained above, neither a new definition nor a new concept is necessary in our view. Instead, the development of new application material is sufficient to support the “right” behaviors.

## **Question 7**

Paragraph 20 -

*(a) Would you support an alternative term to ‘professional skepticism’, such as ‘critical thinking’, ‘critical analysis’ or ‘diligent mindset’?*

*(b) If not, what other term(s), if any, would you suggest which focusses on the mindset and behaviors to be exercised by all professional accountants?*

An alternative term to “professional skepticism” is in our view not necessary. New terms bear the risk of bringing about confusion to the profession. Instead, the extant application material to the fundamental principles should be reviewed and examined as to whether improvements can be made to support the “right” behaviors. The fundamental principle of “integrity” should serve as the overall concept to which additional application material could be added.

### **Question 8**

*Paragraph 21 – Should the IESBA develop additional material, whether in the Code or otherwise, to highlight the importance of exercising the behavior and relevant professional skills as described? If yes, please suggest the type of application material that in your view would be the most meaningful to enhance the understanding of these behavioral characteristics and professional skills.*

We would deem additional application material to expand upon the behavior which can be reasonably expected from professional accountants as useful. IESBA might here focus on the fundamental principle of “integrity”, since in our view the behavioral characteristics expected from professional accountants are in essence linked to this principle. In this context, it is essential that IESBA does not (inadvertently) set up new responsibilities for all professional accountants, and thus widen the expectation gap, in particular with regard to the variety of non-assurance services professional accountants are providing.

### **Question 9**

*What implications do you see on IAASB's International Standards as a result of the options in paragraphs 18 to 21?*

Using the same term and definition (paragraph 18) would impact IAASB’s International Standards significantly. The IAASB’s standards pertaining to agreed-upon procedures engagements and compilation engagements could get undermined.

Using the same term but a different definition (paragraph 19) would also have a serious impact on IAASB’s International Standards. Different definitions might cause considerable confusion among the profession. In addition, the IAASB and the profession would be challenged as to how to apply one term with two different definitions in the case of assurance engagements. These difficulties could prompt the IAASB to develop a new term. However, a new term would ultimately be developed at professional accountants’ expense since they could no longer adhere to their common understanding of a term that had been developed and applied over a long period of time.

Developing another term and definition (paragraph 20) seems to have less impact on IAASB's International Standards. However, this option bears the risk that IESBA (inadvertently) sets up new responsibilities for professional accountants which then could also undermine IAASB's International Standards.

Finally, adding application material to the Code (paragraph 21) would in our view have the least, if not no impact on IAASB's International Standards provided that careful wording takes place.

### **Question 10**


*Paragraph 22 – Should the Code include application or other material to increase awareness of biases, pressure and other impediments to approaching professional activities with an impartial and diligent mindset and exercising appropriate professional skepticism in the circumstances? If yes, please suggest the type of materials that in your view would be the most meaningful to help professional accountants understand how bias, pressure and other impediments might influence their work.*

We are supportive of additional application material aimed at clarifying the responsibilities of professional accountants and what the public can expect from them. However, as illustrated above, IESBA should avoid the terms “*impartial and diligent mindset*” since such a behaviour is already covered by the fundamental principles of “objectivity” and “professional competence and due care” and is therefore redundant. IESBA should instead focus on the principle of “integrity” as the overall concept to which additional application material could be added.

While developing such additional application material, it is in our view important for the IESBA to co-ordinate its activities both with the IAASB and the IAESB. As illustrated, the IAESB's standards need to be adjusted to changes that the Code will undergo in this respect. In addition, also other stakeholders such as professional bodies and firms need to contribute to ensuring that the new application material to the Code and the adjusted educational standards reach the profession, i. e. particularly providing training to professional accountants.

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.

Kind regards



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