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submitted electronically through the IESBA website

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Re.: Exposure Draft, Proposed Technology-related Revisions to the Code

Dear Mr Siong,

We would like to thank you for the opportunity to provide the IESBA with our comments on the “Exposure Draft, Proposed Technology-related Revisions to the Code“, hereinafter referred to as “the Exposure Draft”.

We are providing comments to the following specific paragraphs of the Exposure Draft.

113.1 A1 [...] (b) The application of interpersonal, communication and organizational skills.

IDW questions whether specific interpersonal, communication and organizational skills are a specific item that should be dealt with in the Exposure Draft. For example, would an auditor need to have communication skills in order to behave ethically in relation to technology? We would consider this item to be of general interest, but not related specifically to the topic and therefore propose to delete it.

R113.3 [...] and provide them with sufficient information to understand the implications of those limitations.

IDW questions whether the auditor is at all able to provide sufficient information. In addition, it is questionable who is in the position to judge what is sufficient.

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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Instead of “provide them with sufficient information to understand ...” the Code could require to “explain the implication of those limitations”.

R114.1 A1 Maintaining the confidentiality of information acquired in the course of professional and business relationships involves the accountant taking appropriate action to secure such information in the course of its collection, use, transfer, storage, dissemination and lawful destruction.

The requirement R114.1 A1 relates to national or regional data protection provisions (e.g., the European General Data Protection Regulation). An explanation as to what kind of appropriate action is meant would be helpful. For example, an auditor cannot prevent hackers from unlawfully tapping information. Would that kind of prevention be covered by “appropriate actions” or not?

Complex circumstances

120.13. A1 The circumstances in which professional accountants carry out professional activities vary considerably. Some professional activities might involve complex circumstances that increase the challenges when identifying, evaluating and addressing threats to compliance with the fundamental principles.

IDW questions whether a definition of “complex circumstances” is necessary. What would be the added value of such a definition? We would assume the practitioner be able to identify complex circumstances without further definition. The definition might also risk creating a tic box mentality. We would therefore propose to delete the section regarding complex circumstances.

120.13 A3 Managing the evolving interaction of such facts and circumstances as they develop assists the professional accountant to mitigate the challenges arising from complex circumstances. This might include: [...]

- *Monitoring any developments or changes in the facts and circumstances and assessing whether they might impact any judgments the accountant has made.*

IDW questions whether “monitoring” would imply new and additional documentation requirements. Additional documentation requirements might

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create more burden than providing benefit. If this section is kept at all, the term “monitoring” might need further clarification to prevent additional documentation requirements be created.

120.14 A3 [...] (b) Demonstrate ethical behavior in dealings with business organizations and individuals with which the accountant, the firm or the employing organization has a professional or business relationship.

IDW is wondering what is meant by the term “demonstrate”. Does “demonstrate” imply new and additional documentation? Or does it mean ethical professional behavior in a way which is obvious to others?

R206 A2 The use of technology is a specific circumstance that might create threats to compliance with the fundamental principles. Considerations that are relevant when identifying such threats when a professional accountant relies upon the output from technology include [...]

In addition to the five considerations that are relevant in identifying threats, we propose to add a further consideration, namely “whether the technology has been modified in an inappropriate way, e.g., due to fraud or error, and therefore produces false output.”

220.7 A2 Factors to consider whether reliance on the output of technology is reasonable include: [...]

The professional accountant can only rely on the output of technology if the relevant general IT controls (GITC) are efficient. This applies to the statutory audit as well as other activities provided by the professional accountant. Instead of listing specific factors to consider in determining whether reliance is reasonable one could simply refer to the efficiency of GITC as such. This would cover the various factors listed in section 220.7 A2 without specifying them and, thus, without the risk of omitting singular factors.

300.6 A2 The use of technology is a specific circumstance that might create threats to compliance with the fundamental principles. Considerations

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that are relevant when identifying such threats when a professional accountant relies upon the output from technology include: [...]

In addition to the five considerations that are relevant in identifying threats, we propose to add a further consideration, namely “whether the technology has been changed in an inappropriate way, e.g., due to fraud or error, and therefore produces false output.

320.10 A2 Factors to consider when a professional accountant intends to use the output of technology include: [...]

The public auditor can only rely on the output of technology if the relevant general IT controls (GITC) are efficient. This applies to the statutory audit as well as other activities provided by the professional accountant. Instead of listing specific factors to consider in determining whether reliance is reasonable one could simply refer to the efficiency of GITC as such. This would incorporate the various factors listed in section 320.10 A2 without the risk of omitting individual factors.

520.7 A1 If a firm or a network firm provides, sells, resells, or licenses technology to an audit client, the requirements and application material in Section 600 apply.

While the explanatory memorandum (Chapter II.C.8) points out that the term “technology” is broad and is meant to encompass all technologies, it might be useful to include a definition into the Code itself.

601.5 A2 Accounting and bookkeeping services can either be manual or automated. In determining whether an automated service is routine or mechanical, factors to be considered include how the technology functions and whether the technology is based on expertise or judgments of the firm or a network.

As regards the term “expertise”, it needs to be clarified, whether expertise is meant in the sense of the auditor having put professional expertise into the development of the (software of the) technology or whether it is meant in the sense of the skill of using this specific technology.

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606.2 A1 IT systems services comprise a broad range of services including: [...]

- *Collecting or storing data or managing (directly or indirectly) the hosting of data on behalf of the audit client.*

It remains unclear which kind of data is meant in this bullet point. Would it be internal or external data, would the data be related to financial reporting? Rule 606.2 A2, for example, mentions “aggregate source data”. Is this meant here? What does “managing the hosting of data” mean exactly?

606.3 A1 Examples of IT systems services that result in the assumption of a management responsibility include where a firm or a network firm:

- *Provides services in relation to the hosting (directly or indirectly) of an audit client’s data. [...]*

This section is about the risk of assuming management when providing an IT systems service. Covering the indirect hosting of an audit client’s data seems to be a very broad concept. Would, for example, simple pay roll accounting already be an indirect hosting of an audit client’s data? The broad formulation poses the risk that a lot of services that are usually offered by the professional accountant without creating an issue for professional independence can no longer be provided.

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

Yours truly,

Melanie Sack
Executive Director

Sebastian Kuck
Director, European Affairs