

June 4 2020

Ken Siong

Senior Technical Director

International Ethics Standards Board for Accountants

International Federation of Accountants

529 Fifth Avenue, 6th Floor

New York, NY 10017

**KICPA's Comments on IESBA's Exposure Draft on Proposed Revision to the  
Non-Assurance Services Provisions of the Code**

Dear Ken Siong,

The KICPA is pleased to have an opportunity to comment on the Exposure Draft issued by the International Ethics Standards for Accountants (IESBA), regarding the Proposed Revisions to the Non-Assurance Services Provisions of the Code. The KICPA is a strong advocate of the IESBA for your relentless efforts to serve the public interest by setting high-quality, internationally appropriate ethics standards for professional accountants, including auditor independence requirements.

<Request for Specific Comments>

*Prohibition on NAS that Will Create a Self-review Threat for PIEs*

- 1) *Do you support the proposal to establish a self-review threat prohibition in proposed paragraph R600.14?*

The proposed ED described that “When the audit client is a PIE, stakeholders have heightened expectations regarding the firm’s independence. These heightened expectations should be considered when evaluating the level of threats created by providing a NAS to an audit client that is a PIE. Considering this, when the NAS creates a self-review threat, the service should not be provided”.

We are with that more stringent independence requirements should be applied to an audit client that is a PIE, as compared to one that is a non-PIE. However, we are not for the proposals for all-out prohibition of providing non-assurance services to the audit client that is a PIE, just because a self-review threat is created. Behind the opposition lies the fact that there might be safeguards to reduce such threat to an acceptable level, even when the provision of NAS to the audit client that is a PIE creates a self-review threat.

For one, in case a parent company and a subsidiary one has its own auditor, respectively, which is very common in Korea, an auditor for the parent company might perform a NAS that creates self-review threat, not material to the financial statements, to the subsidiary company that is a PIE, which means the financial statements of the subsidiary one becomes subject to independent review by another auditor, thereby ending up with reducing the self-review threat to an acceptable level.

Therefore, it would be reasonable to allow the audit client that is a PIE to be provided with a NAS in a certain circumstance in which efficient safeguards are capable of being applied,

despite that self-review threat is created, instead of prohibiting the NAS citing the occurrence of self-review threat. After all, there might be some cases that involve safeguards being capable of reducing the threat to an acceptable level.

*2) Does the proposed application material in 600.11 A2 set out clearly the thought process to be undertaken when considering whether the provision of a NAS to an audit client will create a self-review threat? If not, what other factors should be considered?*

The paragraph 600.12 A2 provides a comprehensive description as to what to determine to identify whether the provision of a NAS to an audit client will create a self-review threat.

We expect that there might be no practical difficulties to apply (b) and (c) under the paragraph 600.11 A2, but in case of (c), the story would be different. Thus, it would be necessary for the IESBA to come up with specified examples as to when the results of the service will affect internal controls over financial reporting or the financial statements on which the firm will express an opinion.

In Korea, for instance, the law provides specified guidelines banning an auditor from selecting and suggesting accounting policies for a company, considering such selection and suggestion as an act to affect the financial statements of the company on which he/she will express an opinion, while just giving a permission to the auditor to offer general reference to support the company's accounting treatment, such as explanation on new accounting standards. We hope the IESBA would provide such specified, distinct guidelines with examples.

### *Providing Advice and Recommendations*

- 3) *Is the proposed application material relating to providing advice and recommendations in proposed paragraph 600.12 A1, including with respect to tax advisory and tax planning in proposed paragraph 604.12 A2, sufficiently clear and appropriate, or is additional application material needed?*

We believe that the application material set out in the paragraph 600.12 A1 needs to be revised for the following reasons. First, the paragraph 600.12 A1 requires that the nature of the advice and recommendations and how such advice and recommendations might be implemented by the audit client be considered, when determining whether the provision of advice and recommendations creates a self-review threat.

However, it would be difficult to know how the audit client will implement advice and recommendation, prior to such advice and recommendation being implemented, thereby making it difficult in practice to consider such implementation. Secondly, whether a self-review threat is created by the provision of advice and recommendations is based on the decision on whether it is subject to the sub-items under the paragraph 600.11 A2. As explained in our answers to the Q2, the sub-item (1) under the paragraph 600.11 A2 is not clear enough to be applicable in practice. Given this, we suggest the IESBA come up with additional specified guidelines, just as done in Korea.

### *Project on Definitions of Listed Entity and PIE*

- 4) *Having regard to the material in section I, D, "Project on Definitions of Listed Entity and PIE," and the planned scope and approach set out in the approved project proposal, please share your views about what you believe the IESBA should consider in undertaking its project to review the definition of a PIE.*

We believe the scope and approach set out in the project proposal is appropriate.

## *Materiality*

- 5) *Do you support the IESBA's proposals relating to materiality, including the proposal to withdraw the materiality qualifier in relation to certain NAS prohibitions for audit clients that are PIEs (see Section III, B "Materiality")?*

The proposed ED prohibits the provision of a NAS when a self-review threat is created, even though the outcome of the NAS provided to an audit client that is a PIE is not material. As explained in our answers to the Q1, there might be safeguards in certain circumstances to reduce the self-review threat to an acceptable level. Given this, it would be reasonable to give exceptions to provide a NAS even with the occurrence of self-review threat, taking into account the nature of the circumstance, instead of prohibiting all NAS that create a self-review threat to the audit client that is a PIE.

In addition, we support more stringent implementation of materiality requirements than those set out in the extant Code, but not considering materiality at all could be seen as the lack of logical basis from the perspective of the conceptual framework, as we think.

- 6) *Do you support the proposal to prohibit the following NAS for all audit clients, irrespective of materiality:*

- Tax planning and tax advisory services provided to an audit client when the effectiveness of the tax advice is dependent on a particular accounting treatment or presentation and the audit team has doubt about the appropriateness of that treatment or presentation (see proposed paragraph R604.13)?
- Corporate finance services provided to an audit client when the effectiveness of such advice depends on a particular accounting treatment or presentation and the audit team has doubt about the appropriateness of that treatment or presentation (see proposed paragraph R610.6)?

In principle, we support the proposal. However, it would be difficult to conclude whether the

audit has doubts as to the appropriateness of the related accounting treatment, ahead of performing advisory services. Thus, it would be great for the IESBA to provide specified guidelines to support the conclusion of whether there is a doubt over the appropriateness of accounting, including whether such conclusion is based on the perspective of the reasonable third party.

#### *Communication with TCWG*

- 7) *Do you support the proposals for improved firm communication with TCWG (see proposed paragraphs R600.18 to 600.19 A1), including the requirement to obtain concurrence from TCWG for the provision of a NAS to an audit client that is a PIE (see proposed paragraph R600.19)?*

We support the proposals for improved firm communication with TCWG, in relation with the provision of a NAS to an audit client that is a PIE, but we would like to suggest further considerations as follow.

The IAASB pronouncements also requires firm communication with TCWG in case of an audit client that is a listed entity, and respective jurisdictions put in place separate requirements on firm communication with TCWG in their local law (including Korea) in relation with a NAS. Under the circumstance, setting out similar requirements in the Code could bring about complexity in their application in practice, as we believe. To address the complexity, the IESBA could consider an option that compliance with the IAASB pronouncements is regarded as complying with the Code.

*Other Proposed Revisions to General NAS Provisions*

- 8) *Do you support the proposal to move the provisions relating to assuming management responsibility from Section 600 to Section 400, and from Section 950 to Section 900?*

We support the proposal.

- 9) *Do you support the proposal to elevate the extant application material relating to the provision of multiple NAS to the same audit client to a requirement (see proposed paragraph R600.10)? Is the related application material in paragraph 600.10 A1 helpful to implement the new requirement?*

We support the proposal to elevate the extant application material, relating to the provision of multiple NAS to the same audit client, to a requirement, but we suggest the requirement be applied to firms, excluding network firms, due to the following possible difficulties in practice.

First, to identify combined effect of multiple NAS, it is needed to understand what kinds of NAS network firms provide to an audit client's overseas subsidiaries, but it is not easy. Secondly, in order to identify combined effect of multiple NAS, the history (e.g., what kinds of and when NAS is provided) of NAS, including NAS performed by network firms, should be managed in an organized, structured manner, but it is difficult to do in practice.

*Proposed Revisions to Subsections*

- 10) *Do you support the proposed revisions to subsections 601 to 610, including:*

- The concluding paragraph relating to the provision of services that are "routine or mechanical" in proposed paragraph 601.4 A1?
- The withdrawal of the exemption in extant paragraph R601.7 that permits firms and network firms to provide accounting and bookkeeping services for divisions and

related entities of a PIE if certain conditions are met?

- The prohibition on the provision of a tax service or recommending a tax transaction if the service or transaction relates to marketing, planning or opining in favor of a tax treatment, and a significant purpose of the tax treatment or transaction is tax avoidance (see proposed paragraph R604.4)?
- The new provisions relating to acting as a witness in subsection 607, including the new prohibition relating to acting as an expert witness in proposed paragraph R607.6?

We would like to suggest followings as to the proposed revisions to the subsections 601 to 610.

- (1) The paragraph 601.4 A1 explains in detail services of a routine and mechanical nature, mentioned in the paragraph R601.4. Both of the two prerequisite conditions – (1) reducing threats to an acceptable level, (2) not assuming management responsibility – should be fulfilled to provide accounting and bookkeeping services of a routine and mechanical nature to an audit client that is a non-PIE. Under the circumstance, the paragraph R601.4 (b) requires the firm address any threats that are not an acceptable level created by providing such services. To avoid repetition, it would be desirable to just add to the last part of the paragraph 601.4 A1 that the requirement of not assuming management responsibility set out in the paragraph R400.14 should be complied as well.
- (2) As described in the proposed paragraph R604.4, the provision of a tax service or recommendation of a transaction to an audit client are related to marketing, planning or opining in favor of a tax treatment initially recommended by the firm, and the provision of the tax service or recommendation of the transaction is prohibited, when the significant purpose of such service is tax avoidance.

Given that tax avoidance has subjectivity inherent in its concept, it would necessary for the IESBA to develop additional guidelines to apply the requirement in practice. We believe followings need to be taken into account when developing the guidance. First, tax avoidance is a concept to be applied in case its activities, such as tax treatment, are considered illegal. Second, tax avoidance is a concept to be applied when a firm actively initiates aggressive tax planning to its client. In other words, when the client first suggests such activities and the firm reviews the suggestion, it is not considered as tax avoidance.

(3) We support other proposals.

*Proposed Consequential Amendments*

*11) Do you support the proposed consequential amendments to Section 950?*

We support the proposal.

*12) Are there any other sections of the Code that warrant a conforming change as a result of the NAS project?*

We have no particular comments.

We hope our comments would be helpful in your efforts to revise the Non-Assurance Services Provisions of the Code. Please feel free to contact us via [jjsilverk@kicpa.kr](mailto:jjsilverk@kicpa.kr) for further inquiries.