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KICPA's Comments on IESBA's Exposure Draft on Proposed Revision to Fee-related 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 Revision to the Fee-related 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>

Evaluating Threats Created by Fees Paid by the Audit Client

- 1) *Do you agree that a self-interest threat to independence is created and an intimidation threat to independence might be created when fees are negotiated with and paid by an audit client (or an assurance client)*

We agree with that the threats might be created under the above circumstance.

- 2) *Do you support the requirement in paragraph R410.4 for a firm to determine whether the threats to independence created by the fees proposed to an audit client are at an acceptable level:*
 - (a) *Before the firm accepts an audit or any other engagement for the client; and*
 - (b) *Before a network firm accepts to provide a service to the client?*

We support the requirement.

- 3) *Do you have views or suggestions as to what the IESBA should consider as further factors (or conditions, policies and procedures) relevant to evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client? In particular, do you support recognizing as an example of relevant conditions, policies and procedures the existence of an independent committee which advises the firm on governance matters that might impact the firm's independence*

Given that the paragraph 120.8 A2 in the Code includes examples of such conditions, policies and procedures, we can say that the governance of firms is also included in the factors, thus making it unnecessary for the existence of an independent committee to be included as an additional example.

Impact of Services Other than Audit Provided to an Audit Client

- 4) *Do you support the requirement in paragraph R410.6 that a firm not allow the level of the audit fee to be influenced by the provision by the firm or a network firm of services other than audit to the audit client?*

The paragraph 410.6 seems to prevent a threat to independence arising from the self-interest threat, which is in line with the purpose of the extant Code that requires a firm not charge a contingent fee for an audit engagement. Therefore, we support the requirement of the paragraph R410.6.

The paragraph 410.6 A2 explains that the paragraph R410.6 is not intended to prohibit cost saving, but the explanation seems unnecessary, as we consider.

Proportion of Fees for Services Other than Audit to Audit Fee

- 5) *Do you support that the guidance on determination of the proportion of fees for services other than audit in paragraph 410.10 A1 include consideration of fees for services other than audit:*

(a) Charged by both the firm and network firms to the audit client; and

(b) Delivered to related entities of the audit client?

We support that the proportion of fees for services other than audit to audit fees is calculated based on fees for services other than audit provided by not only the firm but also network firms.

Among related entities, on the other hand, we oppose that fees for services other than audit paid to ones from overseas be included, since it would be difficult to access information on fees for services other than audit provided to audit clients' related entities overseas by network firms.

Fee Dependency for non-PIE Audit Clients

- 6) *Do you support the proposal in paragraph R410.14 to include a threshold for firms to address threats created by fee dependency on a non-PIE audit client? Do you support the proposed threshold in paragraph R410.14?*

As threats are created as well by fee dependency on the non-PIE audit client, we support the proposal in the paragraph R 410.14 to include the threshold. As for the appropriateness of the thresholds of 30% of the total fees received by the firm, however, it would be necessary to identify where accounting firms at the respective jurisdictions stand in terms of fee dependency.

- 7) *Do you support the proposed actions in paragraph R410.14 to reduce the threats created by fee dependency to an acceptable level once total fees exceed the threshold?*

In Korea, the relevant law prohibits a professional accountant who is not a member of the firm expressing audit opinion from engaging in the audit work, thereby making it impossible for him/her to review the audit work, prior to the audit opinion being issued. In addition, there is no legal groundwork for the professional accountant not belonging to the firm or the KICPA to review the audit work after the audit opinion being issued, which limits the application of the safeguard, as proposed in the paragraph R410.14.

We believe additional guidance might be necessary as to whether other types of safeguards can be applicable in case the local law limits the application of the two suggested safeguards.

Fee Dependency for PIE Audit Clients

8) *Do you support the proposed action in paragraph R410.17 to reduce the threats created by fee dependency to an acceptable level in the case of a PIE audit client?*

When for each of two consecutive years the total fees from a certain audit client that is a public interest entity represent more than 15% of the total fees, it is considered to have created a threat to independence of auditors. Under the circumstance, the engagement quality review, as proposed in the paragraph R410.17, might be a safeguard to reduce the threats to an acceptable level.

As explained in our answers to the Q7, the Korean law bans a professional accountant not belonging to the firm on engaging in the audit work, thereby making it impossible for him/her to perform pre-issuance review, as proposed in the paragraph R410.17 (prior to the audit opinion being issued, having a professional accountant, who is not a member of the firm expressing the opinion on the financial statement review the audit work). We suggest the IESBA consider developing additional guidance as to whether other types of safeguards are applicable under the jurisdictional circumstance.

9) *Do you agree with the proposal in paragraph R410.19 to require a firm to cease to be the auditor if fee dependency continues after consecutive 5 years in the case of a PIE audit client? Do you have any specific concerns about its operability?*

If circumstances of fee dependency continue beyond a certain period, it could create a threat to independence. In case of audit clients that are PIEs, the level of relevant threats would be substantial. If circumstances of fee dependence continue for five consecutive years, it is likely that fee dependence on the client is persistent, thereby increasing the possibility of lacking safeguards that could reduce the threats to an acceptable level. Given this, we support the proposals in the paragraph 410.19, and as for its operability, we have no particular concerns.

10) Do you support the exception provided in paragraph R410.20?

In principle, we agree with the exception in the paragraph 410.20. Just as pointed out in our answers to the Q7, it is illegal for a professional accountant who is not a member of the firm to engage in the audit works, thereby making it impossible to apply the safeguards, as proposed in the paragraph R410.20(b). Thus, its application is not possible in Korea, as we see.

Transparency of Fee-related Information for PIE Audit Clients

11) Do you support the proposed requirement in paragraph R410.25 regarding public disclosure of fee-related information for a PIE audit client? In particular, having regard to the objective of the requirement and taking into account the related application material, do you have views about the operability of the proposal?

We do not support the requirements proposed in the paragraph R410.25 for the following reasons. First, it would be difficult in practice to obtain information on fees for audit services or those for services other than audit, either of which are performed by the network firms that are based overseas. Considering the difficulties, it would be desirable for the IESBA to consider excluding such fees from public disclosure. Secondly, we believe that practical additional burdens arising from the public disclosure of fees for component auditors outside the firm's network could far outweigh its benefits, as audit fees paid or payable to firms outside the network have no direct relations with the independence of firms.

12) *Do you have views or suggestions as to what the IESBA should consider as:*

(a) Possible other ways to achieve transparency of fee-related information for PIEs audit clients; and

(b) Information to be disclosed to TCWG and to the public to assist them in their judgments and assessments about the firm's independence?

We have no other specified suggestions besides those suggested in the ED, but as for the public disclosure of fees, the disclosure classified into three - fees for the audit of the financial statements, fees for audit-related services, and fees for services other than audit – could contribute to supporting stakeholders make decisions about the firm's independence.

Anti-Trust and Anti-Competition Issues

13) *Do you have views regarding whether the proposals could be adopted by national standard setters or IFAC member bodies (whether or not they have a regulatory remit) within the framework of national anti-trust or anti-competition laws? The IESBA would welcome comments in particular from national standard setters, professional accountancy organizations, regulators and competition authorities.*

As the ED is not in violation of the anti-trust or anti-competition laws, we believe the proposals can be adopted in Korea.

Proposed Consequential and Conforming Amendments

14) *Do you support the proposed consequential and conforming amendments to Section 905 and other sections of the Code as set out in this Exposure Draft? In relation to overdue fees from an assurance client, would you generally expect a firm to obtain payment of all overdue fees before issuing its report for an assurance engagement?*

We support the proposed consequential and conforming amendments to the Section 905 and other sections of the Code.

15) Do you believe that there are any other areas within the Code that may warrant a conforming change as a result of the proposed revisions?

We found no any additional areas that may warrant a conforming change.

We hope our comments would be helpful in your efforts to revise the Fee-related Provisions of the Code. Please feel free to contact us via jjsilverk@kicpa.kr for further inquiries.